



REPUBLIC OF SERBIA

December 2023

SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; AND STAFF REPORT FOR REPUBLIC OF SERBIA

In the context of the Second Review Under the Stand-By Arrangement, and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis, following discussions that ended on October 31, 2023, with the officials of Republic of Serbia on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on December 4, 2023.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes the Second Review Under the Stand-By Arrangement for the Republic of Serbia

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded the second review under the Stand-By Arrangement (SBA) with the Republic of Serbia, allowing access to about EUR 400 million. The authorities intend to treat the SBA as precautionary starting from this review, one review earlier than planned.
- Macroeconomic outturns under the program remain strong, with recovering growth, ongoing disinflation, a narrowing current account deficit, and record high foreign exchange reserves. The 2024 budget is appropriately tight while providing room for needed public investment.
- The financial situation of the energy sector SOEs has been stabilized, and structural reforms in the energy sector companies, SOE governance and broader fiscal management are progressing well.

Washington, DC – December 21, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Second Review Under the Stand-By Arrangement (SBA) for the Republic of Serbia. The SBA amounting to about SDR 1.89 billion, or approximately EUR 2.4 billion, was approved by the IMF's Board on December 19, 2022 (see Press Release No. 22/447). With this review, about EUR 400 million (SDR 316.53 million) becomes available. The authorities intend to treat the SBA as precautionary (i.e., to not access the available funds for now) starting from the current review.¹

Despite a challenging global environment, economic activity is recovering and the labor market is resilient. Growth is expected to reach about 2½ percent in 2023, increasing to 3¼ percent in 2024 as domestic demand recovers. Inflation is declining, falling to 8 percent yoy at end-November 2023. Inflation is expected to return to within the National Bank of Serbia's (NBS) target range by end-2024 assuming continued tight policies. Despite some ad-hoc spending measures, fiscal consolidation continues as agreed under the SBA. The current account deficit has narrowed significantly, foreign direct investment (FDI) remains robust, and gross international reserves have increased during the year (EUR 24.16 billion at end-November 2023) and stand near all-time highs. Financial stability has been maintained.

The 2024 budget envisages a fiscal deficit of 2.2 percent of GDP, consistent with an ongoing tight policy stance and with a view toward reducing the deficit further to 1.5 percent of GDP in 2025 in adherence with the fiscal rule. Public sector wages and pensions will also be increased in line with the fiscal rule. The budget maintains high capital spending to meet sizeable infrastructure needs and does not envisage liquidity support to energy state-owned enterprises (SOEs) barring any large negative shocks. Reflecting these conservative policies, public debt in percent of GDP remains on a downward path.

¹ The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

The program is on track. All quantitative performance criteria and indicative targets were met, and structural reform momentum has been maintained. Following three rounds of energy tariff increases under the program, the finances of the energy SOEs have improved, and fiscal risks have moderated. Advancing the structural reform agenda centered on energy sector and SOE governance will help address Serbia's remaining vulnerabilities and support long-term growth.

Serbia: Selected Economic Indicators, 2022–25

Population: 6.7 million (2022)

Quota: 654.8 million SDR / 0.14 percent of total

Main products and exports: manufactured goods, food, machinery, and transport equipment.

Key export markets: the EU (Germany, Italy) and ex-Yugoslavian states.

	2022	2023		2024		2025
		SBA 1st Review	Proj.	SBA 1st Review	Proj.	Proj.
Output						
Real GDP growth (%)	2.5	2.0	2.4	3.0	3.3	4.5
Employment						
Unemployment rate (labor force survey) (%)	9.4	9.1	9.1	9.0	9.0	8.8
Prices						
Inflation (%), end of period	15.1.	8.2	8.0	4.0	4.0	3.5
General Government Finances						
Revenue (%GDP)	43.3	42.1	42.5	42.1	42.6	42.8
Expenditure (% GDP)	46.4	44.9	45.4	44.2	44.8	44.3
Fiscal balance (% GDP)	-3.0	-2.8	-2.8	-2.0	-2.2	-1.5
Public debt (% GDP)	55.6	55.3	53.5	53.3	52.0	49.7
Money and Credit						
Broad money, eop (% change)	6.9	11.3	8.1	8.7	5.1	5.7
Credit to the private sector, eop (% change) ^{1/}	7.4	5.9	1.1	11.6	3.9	4.5
Balance of Payments						
Current account (% GDP)	-6.9	-4.7	-2.3	-4.6	-3.3	-3.5
FDI (% GDP)	7.1	6.1	5.9	5.7	5.5	5.4
Reserves (months of prospective imports)	5.2	5.6	6.6	5.7	6.7	6.8
External debt (% GDP)	72.0	66.8	66.3	63.8	63.9	61.3
Exchange Rate						
REER (% change)	3.3	...	...	...	...	...

Sources: Serbian authorities and IMF staff estimates.

^{1/} Calculated at a constant exchange rate to exclude the valuation effect.



REPUBLIC OF SERBIA

SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

December 4, 2023

EXECUTIVE SUMMARY

Context: Despite a challenging global environment, growth is recovering, and the labor market is resilient. The current account deficit has narrowed significantly, foreign direct investment (FDI) remains robust, and foreign exchange reserves are at record highs. Risks have fallen since the start of the program. Early parliamentary and municipal elections on December 17, 2023 imply a period of caretaker government, although policy continuity is provided by President Vučić's term in office until 2027.

Policies: The authorities remain firmly committed to their policy framework under the Stand-By Arrangement (SBA). Despite some ad-hoc spending measures, fiscal consolidation continues as agreed under the SBA. Monetary policy has been tightened further and inflation is expected to fall within the NBS's target band by end-2024 assuming tight policies continue. With still-high inflation, tight monetary policy is needed until disinflation is securely achieved. Following three rounds of energy tariff increases under the program, the finances of the electricity and natural gas SOEs have improved, and no liquidity support from the budget is expected in 2024. Energy sector and SOE governance reforms, which lie at the core of the SBA, are continuing.

Program performance: Program performance remains strong, reflecting the authorities' program ownership. All quantitative performance criteria (QPCs) and indicative targets (ITs) were met, as were the end-October 2023 structural benchmarks (SBs) on energy tariff increases, and a prior action on approving the 2024 budget. The SB on medium-term budgeting was completed with a short delay. The authorities request that the SB on a restructuring plan for the electricity utility company Elektroprivreda Srbije (EPS) be postponed by four months given the complexity of the reforms. Given reserve strength, the authorities request that the floor on net international reserves (NIR) be raised to be consistent with gross reserves at 90 percent of the Fund's ARA metric, with a further increase to 100 percent expected later, absent negative shocks. Further, the authorities will not make the purchase available with approval of this review (SDR 316.53 million, 48.34 percent of quota), and will treat the SBA as precautionary, one review earlier than planned. Staff recommends completion of the 2nd Review under the SBA and supports the modification of performance criteria.

Approved By
Laura Papi (EUR)
Pritha Mitra (SPR)

Discussions were held in Belgrade during October 19–31, 2023. The staff team comprised Donal McGettigan (head), Christiane Roehler, Mengxue Wang (all EUR), John Hooley (FAD), Lukas Kohler (SPR), Tongli Zhang (MCM), Yulia Ustyugova (resident representative), Desanka Obradović and Marko Paunović (local economists). Vuk Djoković (OED) attended some discussions. HQ support was provided by Jinsol Kim and Zeju Zhu (both EUR).

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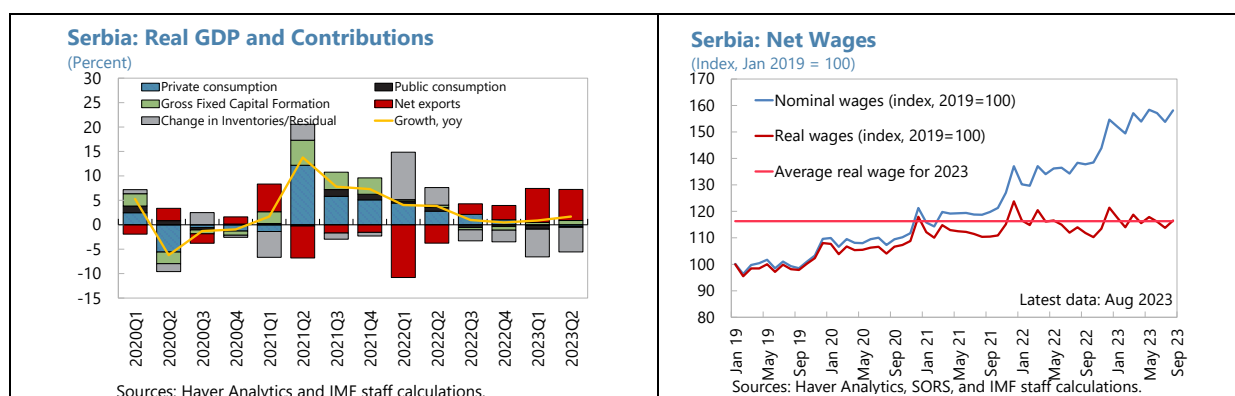
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CONTEXT

- 1. Serbia is recovering well from the 2022 energy crisis.** Russia's invasion of Ukraine led to steep regional energy price increases and to large fiscal and balance of payment needs in Serbia, prompting the authorities to request a Stand-By Arrangement (SBA) in December 2022. Reflecting program reforms and supported by lower energy prices and resilient net exports (Figures 1 and 5), Serbia's external imbalances have improved significantly, accompanied by rapid reserve accumulation.
- 2. Early parliamentary and municipal elections will take place on December 17, 2023.** From early November, the government has been operating under caretaker rules that allow it to conduct essential and scheduled business, but not to make new policy. While the caretaker government may continue for some time, policy continuity is provided by President Vučić's term in office until 2027, and by the 2024 budget approved by parliament in October.
- 3. Long-standing regional geopolitical challenges remain.** Serbia is an EU candidate country, but limited progress on normalizing Serbia-Kosovo relations, and limited alignment on foreign policy positions remain obstacles.

RECENT ECONOMIC DEVELOPMENTS

- 4. Growth is showing signs of recovery and the labor market remains resilient.** Growth fell in the second half of 2022 and remained weak in 1H2023, as elevated inflation hit consumption, rising interest rates tempered investment, and inventories accumulated in early 2022 were run down (Figure 2). Signs of a nascent recovery have, however, emerged, led by net exports with moderate export growth and imports falling along with domestic demand. While employment growth has slowed in recent quarters, unemployment remains close to the historic low (Figure 3).

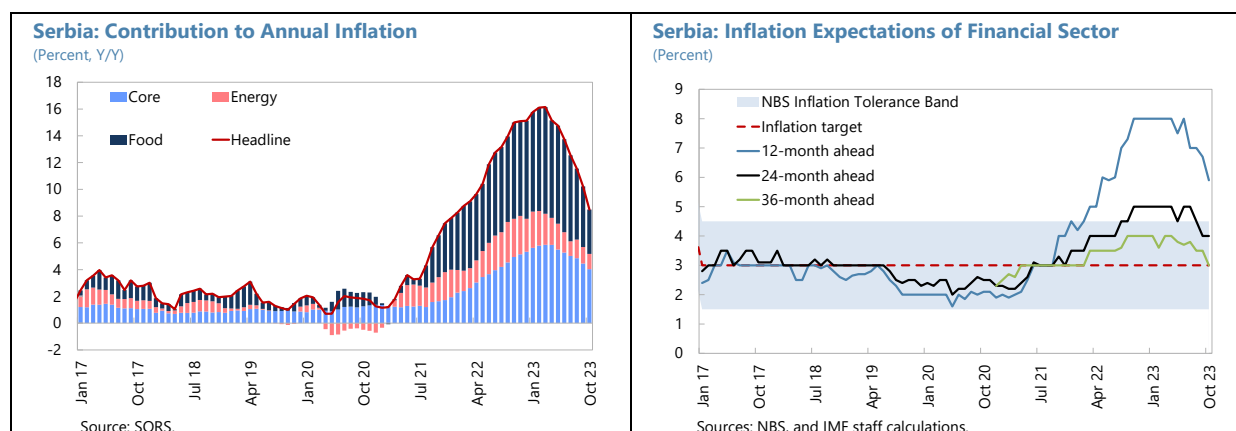


- 5. Inflation has fallen in line with program projections but remains well above the NBS's target** (Figure 4). Headline inflation has fallen from a peak of more than 16 percent in March to 8.5 percent in October, driven by favorable base effects (high energy and food prices in the previous

year), favorable domestic agricultural developments, and easing import price pressure. Inflation momentum has slowed, and inflation expectations have started to decline. Yet, inflation expectations remain elevated, and the labor market remains tight.

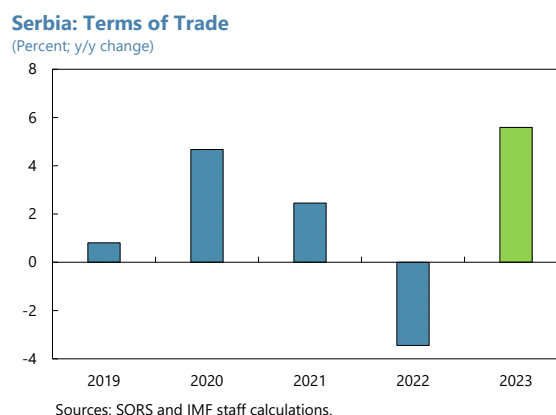
Serbia: Recent Inflation Developments in 2023										
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Headline, yoy	15.8	16.1	16.2	15.2	14.8	13.7	12.5	11.5	10.2	8.5
Headline, 3mma	12.2	13.4	14.7	10.3	9.1	7.8	7.5	4.7	3.3	2.6
Core, yoy	10.4	11.1	11.3	11.1	10.4	9.9	9.4	9.1	8.2	7.3
Core, 3mma	10.0	10.8	9.6	9.2	7.2	6.4	6.0	6.0	4.0	3.2

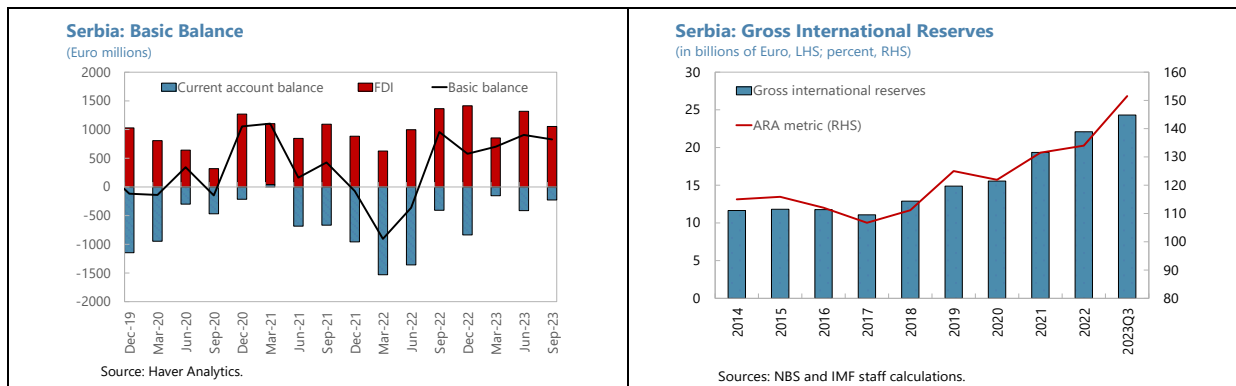
Note: All figures are annualized basis
Sources: NBS and IMF staff calculations



6. A sharp turnaround in Serbia’s external accounts spurred a large reserve buildup

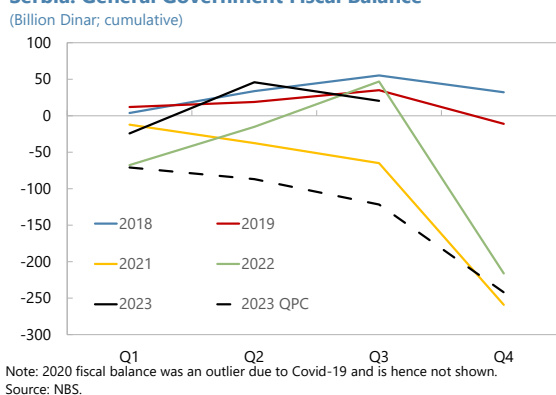
(Figure 5). Energy import prices are well below 2022 peaks, while weak domestic demand growth compressed import volumes. At the same time, exports remained resilient reflecting strong manufacturing exports given Serbia’s expanding role in global production chains and its role as an FDI destination. An expanding services balance, especially because of ongoing good ICT sector performance, also helped. FDI inflows remain high, and Eurobond issuance and official financing were also robust. Reserves have, as a result, increased to almost €24 ½ billion or about 155 percent of the ARA metric as of end-October.





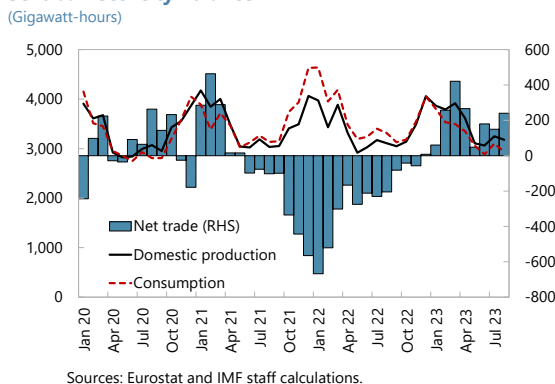
7. Fiscal over-performance continues, helped by inflation, despite large ad-hoc spending measures (Figure 6). Revenues were strong, especially from corporate income tax which was buoyed by lagged inflation effects. Spending by line ministries was strictly controlled. Lower support to energy SOEs also helped. Over recent months, however, the authorities announced major new spending measures, including one-off agricultural subsidies, unscheduled pension and wage increases, an additional one-off pension bonus, and one-off social assistance transfers, all estimated to cost around 1½ percent of GDP in 2023. Financing is robust—a large Eurobond issuance in early 2023, new official bilateral loans, and ongoing IFI project financing have boosted government deposits, which stood at around 10 percent of GDP in September (Figure 7). Non-resident participation in the domestic government debt market increased to about 17 percent at end-September, from about 14 percent in 4Q2022.

Serbia: General Government Fiscal Balance

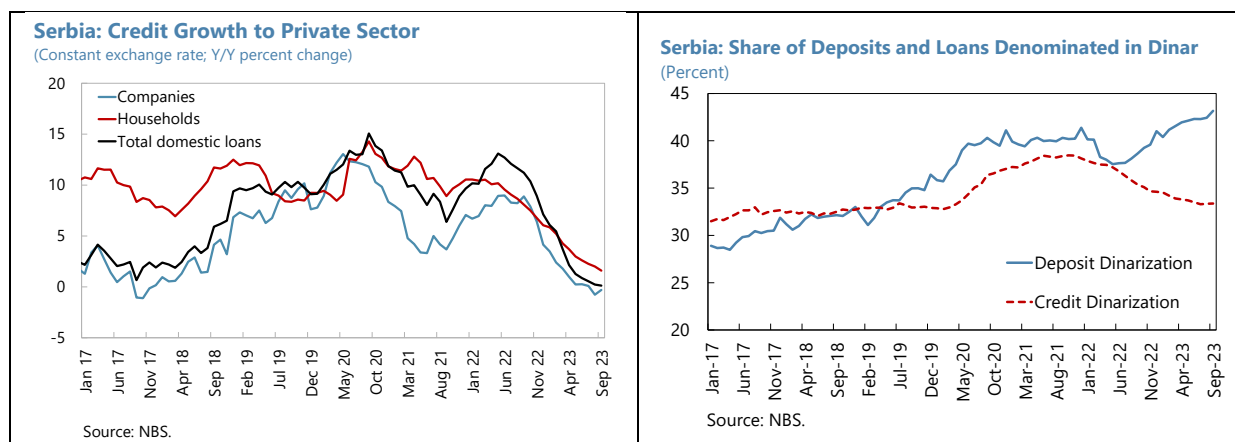


8. Cash flow in the energy SOEs improved considerably. The electricity utility EPS and the natural gas utility Srbijagas benefitted from tariff hikes agreed under the program, lower energy import prices and stable supply conditions. With a good hydropower season and stronger electricity production in domestic coal-fired plants, EPS moved from relying on emergency electricity imports to being able to provide modest electricity exports.

Serbia: Electricity Balance



9. Credit growth continued to slow while bank balance sheets appear healthy. Domestic credit growth has fallen because of tighter monetary policy and maturing loans from earlier loan guarantee schemes. Bank prudential ratios remain well above regulatory minimums and NPLs remain at a historic low of 3 percent, although Euroization remains high.



OUTLOOK AND RISKS

10. The baseline outlook under the program is favorable with continued gradual economic recovery, falling inflation, and moderate external imbalances. Key macroeconomic projections include (Tables 1–5):

- **Growth** of almost 2½ percent is expected in 2023, driven by net exports, as domestic demand has been weak. Activity is expected to increase by about 3¼ percent in 2024, driven by a rebound in domestic demand, helped by falling inflation and recovering real wages, before reaching its potential of about 4 percent over the medium term.
- **Inflation** is expected to fall to 8 percent by end-2023 on continued favorable base effects and declining inflation momentum, despite large administrative price hikes. Inflation is expected to fall within the NBS's target band by end-2024 assuming tight macroeconomic policies continue.
- **On the external side**, the current account deficit is expected to fall sharply in 2023—to about 2¼ percent of GDP, on improved goods and services balances, and remittance inflows. Reserves are expected to continue to increase, to more than €24½ billion by end-2023. With domestic demand recovering from 2024 onward, the current account deficit is expected to move back to its long-term norm of about 4 percent of GDP over the medium term.

Serbia: Key Macroeconomic Variables, 2022–28

		2022	2023	2024	2025	2026	2027	2028
Real GDP growth (percent)	Current	2.5	2.4	3.3	4.5	4.0	4.0	4.0
	Program request	2.5	2.3	3.0	4.5	4.0	4.0	
CPI, average (percent)	Current	12.0	12.3	5.3	3.5	3.2	3.0	3.0
	Program request	12.1	12.2	5.3	3.5	3.2	3.0	
CPI, eop (percent)	Current	15.1	8.0	4.0	3.5	3.2	3.0	3.0
	Program request	15.8	8.2	4.0	3.5	3.2	3.0	
Current account (percent of GDP)	Current	-6.9	-2.3	-3.3	-3.5	-4.0	-4.1	-4.4
	Program request	-9.0	-8.4	-6.0	-5.3	-5.3	-5.3	

Sources: SORS, NBS, and IMF staff estimates and projections.

11. Risks to the outlook have declined since program inception (Annex I). While global interest rates are expected to remain elevated for some time and trading partner growth is below trend, the Serbian economy has so far shown resilience. Downside risks include an escalation of geopolitical tensions, domestic political uncertainty following the elections, another spike in global energy prices (including possibly because of the ongoing Russia's war in Ukraine or the Israel-Gaza conflict) or regional energy supply shortages, and renewed global financial market instability. Upside risks include a faster growth recovery if, for example, real wages rebound more than expected or export growth repeat its recent outperformance.

PROGRAM PERFORMANCE

12. The program is on track (Appendix 1, Tables 1a–1b). All end-June 2023 quantitative performance criteria (QPCs) and end-September 2023 indicative targets (ITs) on the fiscal deficit, on current primary expenditure, and on NIR were met by substantial margins. Headline inflation in June and September 2023 was within the ICC band. The continuous performance criteria and all other end-June 2023 and end-September 2023 ITs were also met. End-December QPCs and ITs are on track.

13. Two of three structural benchmarks (SBs) were met, one was implemented with a short delay, and one future SB has been delayed (Appendix 1, Table 2):

- The two structural benchmarks on increases in the average electricity and natural gas tariffs of 8 and 10 percent, respectively, effective November 1, 2023, were met (**end-October 2023 SBs**).
- The authorities adopted an action plan to make medium-term budgeting more effective and binding in September (**end-July 2023 SB**). While the draft action plan was prepared in July following IMF technical assistance, subsequent discussions between the authorities and staff were needed on an additional action item on improving public investment transparency.
- The **end-December SB** to approve EPS restructuring plan will not be met, as it has taken longer than anticipated to appoint the Supervisory Board and new management that should lead the preparation of the EPS restructuring plan as well as to find capacity to work on such a plan. The SB has, accordingly, been rephased and has also been modified (see ¶127).

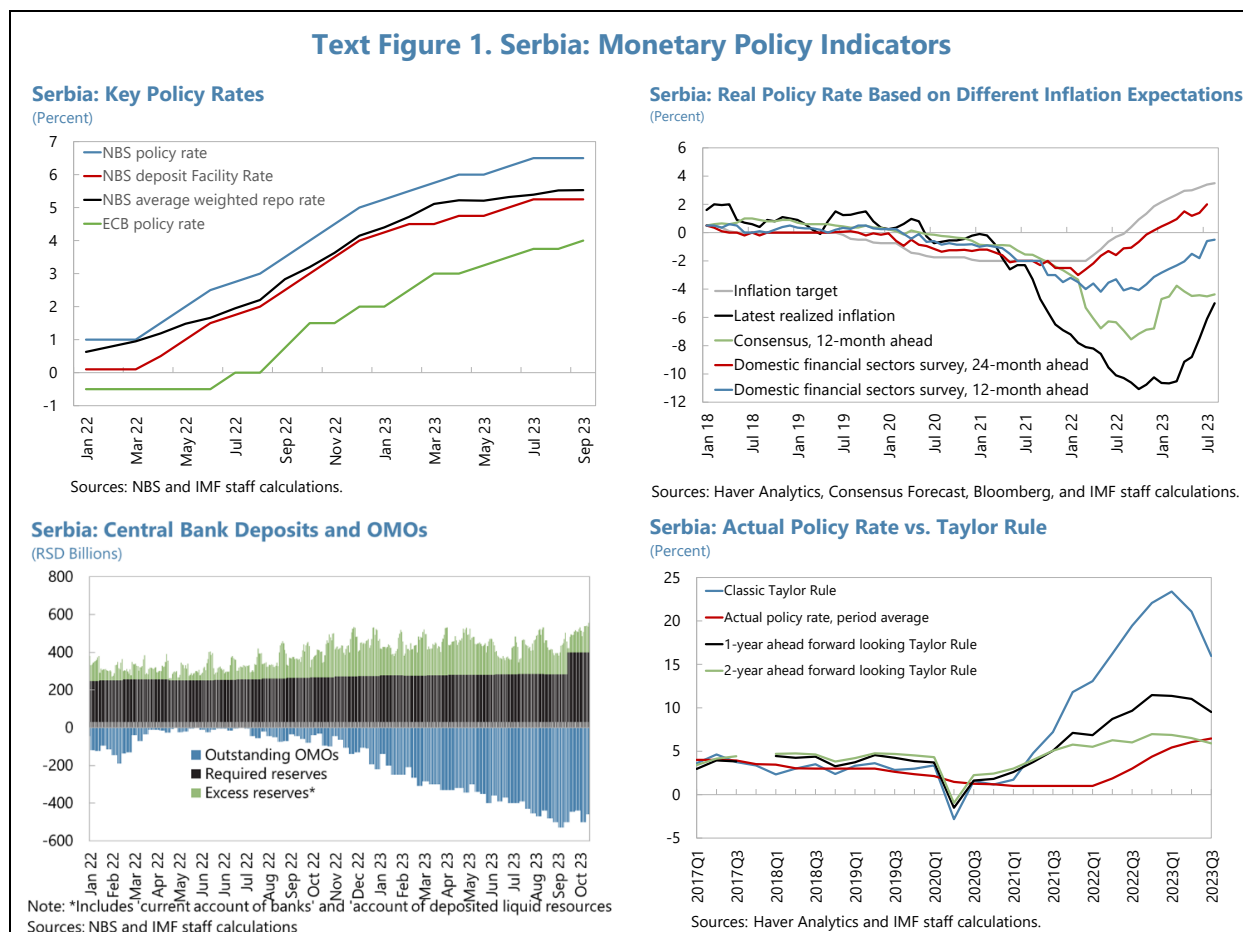
- The **end-January 2024 SB** on expanding the public wage registry for the healthcare sector is on track (see ¶21).

14. The new SOE governance law was approved by parliament in September 2023 with minor revisions. The initial draft of the law was adopted by government in May 2023 (completing with delay an end-December 2022 SB, see IMF Country Report No. 23/243). Given strong public interest, the authorities held an additional public communication campaign in July to explain the goals of the reform and introduced small revisions to the law to strengthen accountability and accounting practices, drawing on inputs from NGOs. The revised law was adopted by government in August and approved by parliament in September.

POLICY DISCUSSIONS

A. Monetary Policy—Securing Sustainable Disinflation

15. The NBS raised its policy rates to 6½ percent, which, along with ECB tightening, has helped lower inflation from earlier peaks. Favorable base effects and a good agriculture season also helped. However, the average weighted repo rate—the main operational tool for monetary



policy with excess liquidity in the system¹—is about 1 ppt below the policy rate and the gap should be narrowed over time. Reserve requirements were increased in September, which helped mop up about a fifth of the excess dinar liquidity.

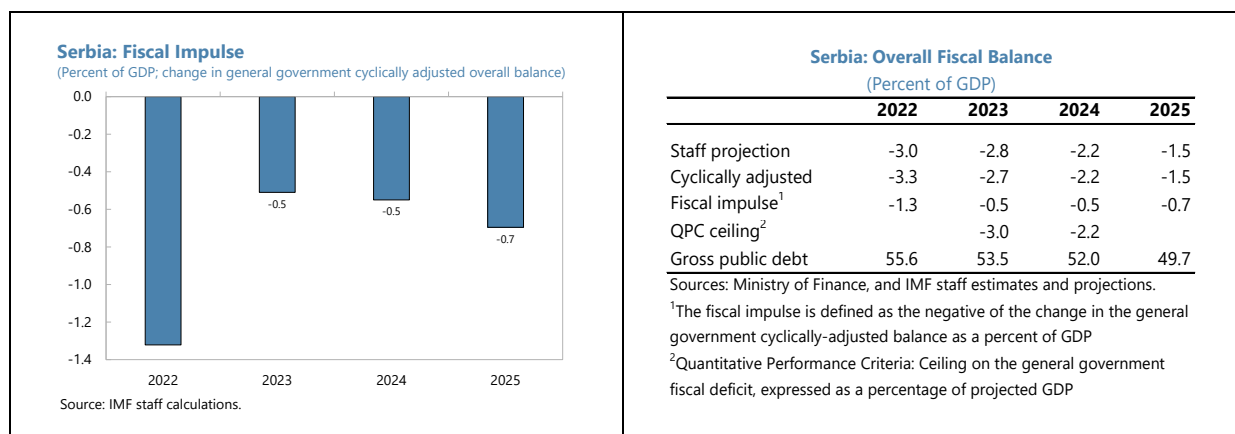
16. Staff argued that further policy rate hikes are likely needed, unless inflation expectations fall materially soon. While baseline projections see inflation falling to within the NBS's target band in 2024, assuming continued tight macroeconomic policies, risks are tilted to the upside. Real policy rates remain negative, the spread to the ECB policy rate has narrowed, core inflation and inflation expectations remain elevated, and the labor market remains tight. At the same time, domestic monetary policy transmission is not as strong as in some other countries (Annex II) given Euroization and the de facto stabilized exchange rate regime. Also, Taylor rule analysis suggests a higher policy rate is needed. All this suggests that further policy rate increases are likely needed unless inflation expectations fall materially, which would in turn bring about the needed increase in the real policy rate. The authorities noted that inflation has declined as expected and that further declines would guide inflation expectations lower and raise real policy rates. They also stressed that the impact of NBS and ECB tightening had not yet fully materialized.

17. The de-facto stabilized exchange rate regime remains appropriate, although greater exchange rate flexibility over time should be considered. A gradual return to a more flexible exchange rate over the medium term would be more consistent with the official inflation targeting regime and would provide an important shock absorbing role. The authorities emphasized the importance of exchange rate stability for macroeconomic stability and broader confidence.

B. Fiscal Policy—Rebuilding Fiscal Space and Aiding Disinflation

18. The authorities remain committed to their SBA fiscal targets despite several recent one-off spending measures. The approved 2024 budget targets a fiscal deficit of 2.2 percent of GDP, and the fiscal strategy foresees a fiscal rule-compliant deficit of 1.5 percent of GDP in 2025. This path implies a modest negative fiscal impulse and will help further lower public debt, rebuild fiscal buffers, and aid with disinflation. To help deliver this fiscal adjustment, and as agreed with staff, the authorities raised excise taxes by 8 percent in October and expect to strengthen VAT collection through continued improvements in tax administration procedures and more extensive information technology use. They also expect that budget support will not be needed for energy SOEs in 2024, although the budget includes a 0.3 percent of GDP contingency reserve under net lending.

¹ See Box 3, IMF Country Report 23/243.



19. The authorities committed to avoiding any repeat of the recent ad hoc wage and pension increases, the latter of which ran counter to the new fiscal rule. They argued, nevertheless, that the increases were needed at the time to safeguard the real incomes of vulnerable groups and real public sector compensation given inflation pressures.² Staff noted that real wage growth restraint was needed to aid disinflation, and that broader public wages appeared aligned with private wages apart from top tier and specialist civil service positions, where wages lagged (Annex III). To signal commitment to the fiscal rules on pension and wage expenditure, a new continuous structural benchmark is proposed on foregoing ad hoc pension increases, while the extension of controls on public sector hiring and the new ISKRA public wage registry will support containment of the overall wage bill.

20. Debt management is helping to reduce fiscal financing risks. Large external financing inflows and robust domestic issuance at longer maturities have allowed a significant cash buffer to be built. As a result, fiscal financing risks for 2024 have been reduced. Domestic debt issuance in 2024 will focus on longer-term dinar-denominated benchmark bonds, which will support higher non-resident participation, improve the public debt currency mix, and help lengthen average maturities. On the external front, a new Eurobond issuance will depend on borrowing conditions. Sizeable borrowing from international and bilateral development partners to finance priority capital investment projects is ongoing.

21. The authorities continue to advance their ambitious fiscal structural reform agenda.

- **Fiscal rule, budgeting and fiscal transparency.** To support the fiscal rule, the authorities have adopted an action plan on medium-term budgeting through 2026 (**end-July 2023 SB**) with initial steps to make medium-term budget estimates more effective and binding from 2025 (MEFP ¶117). They are on track to expand the coverage of fiscal data for regular monthly reporting to all materially relevant general government entities from January 1, 2025. This will

² In the discussion on the fiscal rule in the Fiscal Strategy 2024 – 2026 required by the Budget System Law, the authorities present this argument. The Fiscal Council in its public assessment of the fiscal strategy indicated that the additional pension payments represented a violation of the subsidiary pension rule of the fiscal rule framework.

in turn require modest adjustments to the parameters of the fiscal rule (**end-November 2024 SB**, MEFP ¶16).

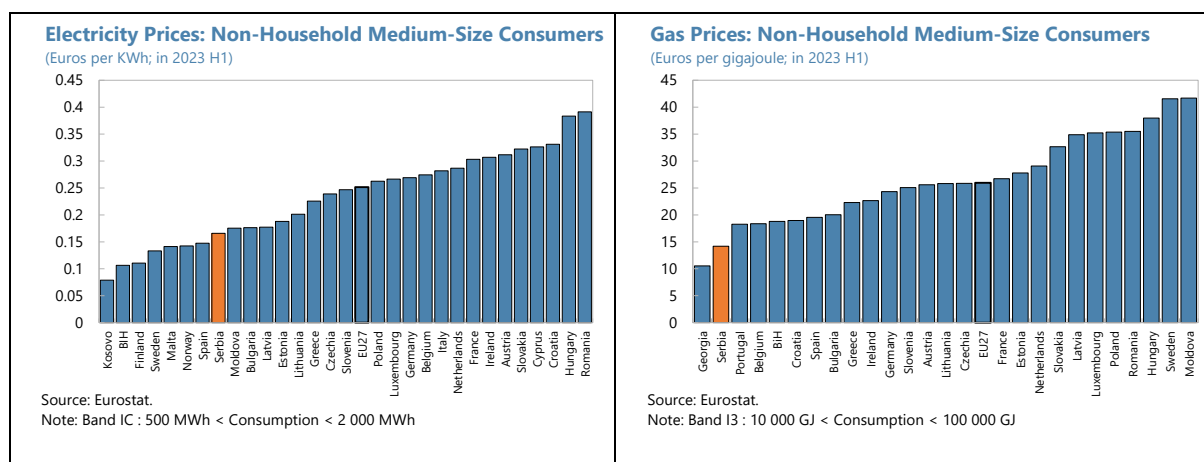
- **Public Investment Management.** The authorities made good progress towards establishing a single project pipeline that covers all ongoing and future investment projects. A new Decree on capital projects was adopted to improve regulatory procedures for selecting and monitoring project implementation. The new Public Investment Management System (PIMIS) became operational, supporting the evaluation and monitoring of capital projects and will next incorporate projects in the pre-implementation phase. (MEFP ¶19). At the same time, the use of exemptions for projects from standard selection and procurement procedures should be tightened.
- **Fiscal Risk Management.** The new fiscal risk unit published an expanded analysis of fiscal risks in the 2024–26 fiscal strategy and will further expand fiscal risk reporting in 2025 with a view toward incorporating forward-looking analysis.
- **Public Wage Registry (ISKRA) and Public Wage Reforms.** The extension of the new central electronic public wage and employment registry to the health sector (**end-January 2024 SB**, MEFP ¶21) is progressing as planned, and the registry will cover around 80 percent of public employees by early 2024. The registry will be a key input in the design of a comprehensive reform of public compensation (see also Annex II).
- **Tax administration.** The authorities are in the final stages of procuring a new commercial-off-the-shelf (COTS) IT system, which will support comprehensive modernization of business procedures and taxpayer services. To improve compliance of high-net-worth individuals, a new dedicated unit launched its first audits. The tax administration will also conduct, as a priority, and with IMF technical assistance support, a diagnostic of the drivers of ongoing hiring bottlenecks. This will help identify measures that support revenue collection and strengthen service delivery in the context of an impending retirement wave of experienced staff (MEFP ¶20).
- **Social Benefits Administration.** IT system improvements for the administration of social benefits (IS SOZIS) are ongoing, which will in time help with better targeting of benefits and with reaching more of the most vulnerable (MEFP ¶32).

C. Energy Sector Policies—A Continued Focus of the Program

Overview

22. Since program inception, Serbia’s energy sector has become stronger. SOE financial health has improved following three rounds of energy tariff increases under the SBA, improved domestic coal production, and better hydroelectric power supply. And energy storage has also been strengthened—domestic coal stocks are at record highs, Srbijagas’s storage facilities in Hungary and Banatski Dvor are filled to capacity, the favorable gas supply agreement with Russia remains in place, and the construction of the Serbia-Bulgaria gas interconnector is close to completion. The first

wind and solar auctions took place in mid-2023 and additional auctions are planned for 2024–25, thus helping enhance energy security, contributing to the green transition, and preparing Serbia for the EU's CBAM.



23. Energy sector reforms need to continue under the guidance of coordinated strategic plans (MEFP ¶10). A new draft Energy Development Strategy has been prepared and is expected to be adopted once a new government takes office and following needed public consultations. Public hearings on the Integrated National Energy and Climate Plan (INECP) have concluded, and the authorities intend to adopt it shortly after the Energy Development Strategy. An energy investment plan covering the next 2–5 years was prepared under the program, and the authorities are now working on developing the projects and financing options. This plan will be updated regularly to reflect evolving needs and project evaluations. The Low-Carbon Development Strategy for 2023–30, adopted in June 2023, is also coordinated with the preceding documents (MEFP ¶133).

24. In a welcome move, the protection program for energy-vulnerable households has been expanded (MEFP ¶19). While earlier campaigns only increased coverage modestly, the Decree on Energy Vulnerable Customers was again amended in October 2023 to expand the program automatically to pensioners with minimum pension and to the recipients of means-tested social assistance program, by exchanging information between competent authorities. As a result, by early November, the number of households with the status of an energy vulnerable customer increased by about 90,000 to around 160,000 in total.

Electricity

25. With three tariff increases under the SBA and a recovery in production, EPS has achieved medium-term cost recovery and no liquidity support in 2024 is anticipated (MEFP ¶17). Out of the total liquidity support provided by the government to the EPS over the past years and recorded as fiscal expenditure, the government has written off about €300 million, (0.4 percent of GDP), while EPS is set to repay about €200 million.

26. EPS will be asked to approve a new electricity supply pricing system for the non-regulated sector as of November 1, 2024 (new end-August 2024 SB, MEFP ¶17 and Annex IV). This will allow the orderly removal of current price caps. It will be built around market-based principles and may contain elements that provide protections against excessive price moves. The pricing system will become effective with the consent of the General Assembly of the EPS (i.e., the Minister of Mining and Energy). The authorities will also undertake a holistic analysis of the electricity supply pricing system covering the regulated and non-regulated sectors, and for the prices paid between the unbundled companies in the sector (e.g., EDS's price for technical losses).

27. Governance reforms in EPS are continuing, albeit with some delays (MEFP ¶10). Following the change in the legal form of EPS to a joint stock company with a two-tier board structure in April 2023 (initially envisaged for February 2023), a new supervisory board comprised of recognized international and domestic experts was appointed. Currently the supervisory board is in the final stages of selecting a new CEO through a transparent recruitment procedure, and is assessing internal management capabilities. Since EPS reforms are difficult and complex and the board members still new, the authorities request that the structural benchmark on the restructuring plan for EPS (**end-December 2023 SB**) be rephased to May 1, 2024 (**revised May 1, 2024 SB**), and be modified, as the new EPS Statute as a joint-stock company makes it accountable to the EPS General Assembly rather than the government.

Natural Gas

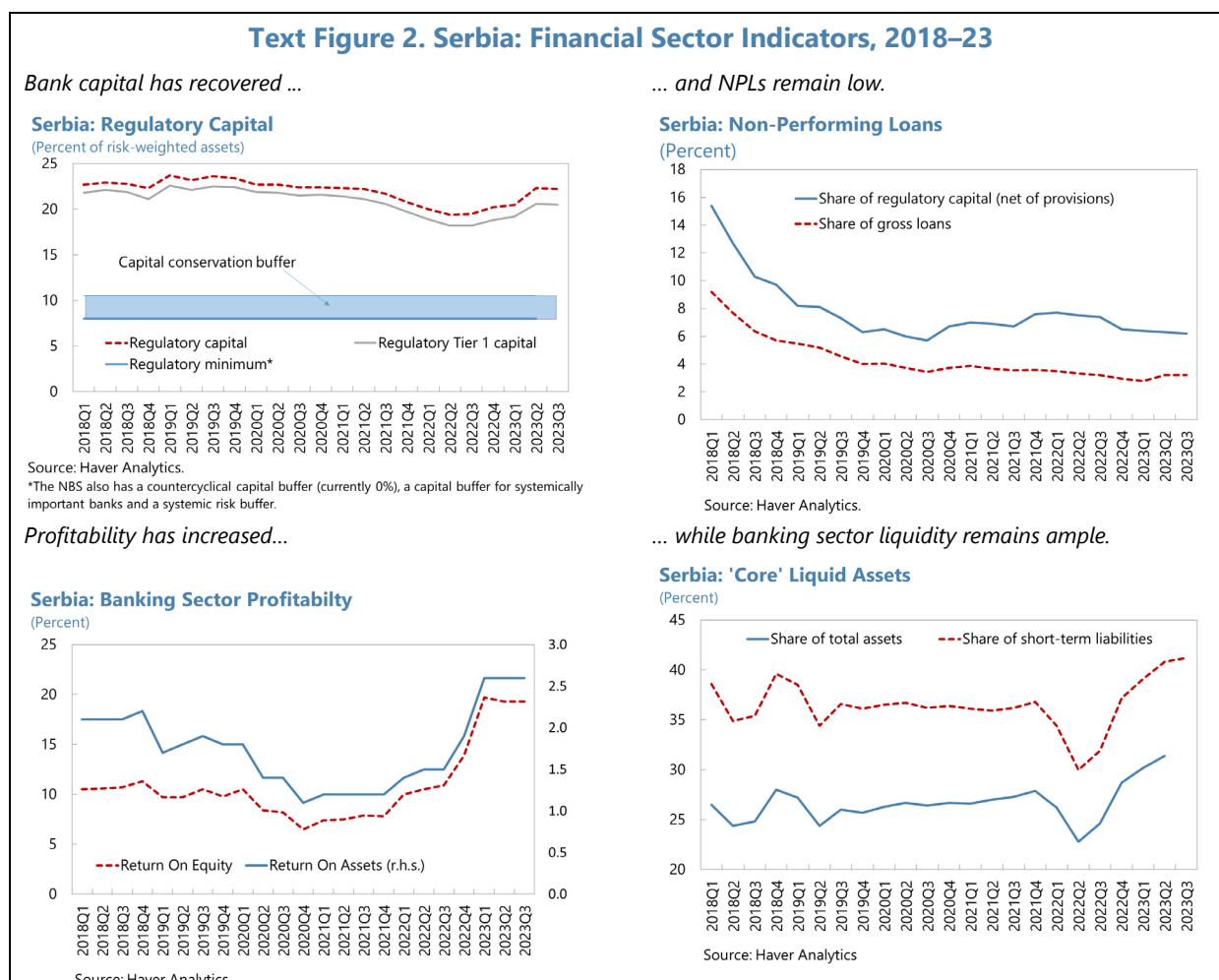
28. Following three tariff increases, Srbijagas' finances have improved although full medium-term cost recovery is not yet assured (MEFP ¶18). Absent major shocks, no budget support is anticipated in 2024, as the favorable Russia gas contract remains in place and is being augmented for the 2023–24 winter season, and stored gas covers about one-quarter of annual consumption. The authorities are committed to reassessing the need for further adjustments in gas tariffs once the 2023–24 heating season is over, and they are ready to implement ad hoc average gas tariff increases as needed. The recent Bulgarian announcement of new transit charges on Russian gas may call for additional increases (Annex IV).

29. The authorities will approve a new gas pricing system for the non-regulated sector, which will become effective as of May 1, 2024 (new end-January 2024 SB, MEFP ¶18). This new system will allow for removing gas price controls for the non-regulated sector in an orderly manner and may include elements that would help shield consumer prices from excessive short-term volatility in gas markets.

30. The authorities plan to complete the unbundling of Srbijagas by end-2024 to help increase competition in the domestic gas sector. Recent amendments to the Energy Law allow an independent commission to oversee gas and electricity transmission operators, transport gas and EMS, preparing the way for these two companies to be certified by the Energy Agency of the Republic of Serbia and European regulatory bodies.

D. Financial Sector Policies

31. Bank prudential indicators appear sound but close monitoring of risks in a higher-for-longer interest rate environment remains important (Table 10). The banking system shows adequate capitalization, ample liquidity, low NPLs, and improved profitability. According to recent NBS stress tests, the banking system is resilient to simulated “worst case” shocks on NPLs and bank deposits. The counter-cyclical capital buffer remains at 0 percent.



32. Staff called for the recent temporary mortgage rate caps to expire by end-2024, as scheduled. The caps are not well targeted (apply to existing and new variable rate mortgage loans for first time homebuyers up to €200,000 until end-2024), they modify contracts ex post, and blunt the monetary policy transmission mechanism. The NBS argued that the caps prevented an incipient increase in NPLs, also in other consumer market segments, and would allow time for a smoother adjustment to higher policy rates. The NBS considers the caps a temporary measure (MEFP 127). Between the mortgage rate caps and increased reserve requirements introduced in September 2023, bank profits may be reduced by more than 15 percent. With many peer countries taking similar

measures, the immediate impact on foreign investor confidence appears limited, but such measures could dent investor confidence over time, especially if extended or expanded.

33. Similarly, staff encouraged the NBS to allow any remaining Covid-area prudential measures to expire as scheduled. Most measures (see IMF Country Report No. 23/243, text box) have ended or will expire soon. The measure that allows banks to exclude 70 percent of net unrealized losses and gains from government bond valuation in CET 1 capital calculations will be phased out from 2024 (and the impact on system-wide CET capital has fallen to less than 0.4 ppts). A measure that permits the extension of the maturity of consumer and cash loans by three years is permanent, although extended loans move from stage 1 to stage 2 treatment under IFRS9.

34. The authorities continue to strengthen the financial sector regulatory and supervisory frameworks and to resolve past NPLs. The NBS completed a gap analysis of the domestic legal framework with the EU's. Regulations for the liquidity coverage ratio have already been aligned, the Net Stable Funding Ratio (NSFR) will be introduced by end-2023, to be followed by regulatory limits on the leverage ratio, and thereafter by requirements for prudential reserves. To resolve the remaining portfolio of bad assets, in a recent change of approach, the Deposit Insurance Agency (DIA) plans to sell individual packages of receivables. Each financial institution will prepare its own receivable package for sale, and bids are expected by end-2023.

35. The authorities remain committed to enhancing Serbia's capital markets. Supported by a World Bank loan, the Ministry of Finance established a new unit to support capital market development and is launching a Corporate Bond Issuance Program from January 2024. The program will support potential issuers in managing the process and covering their cost. The authorities also continue to build a One Stop Shop internet platform for market participants.

E. Governance and Structural Policies—Tackling Important Challenges

36. To implement the new landmark SOE governance law, the authorities will review its alignment with existing laws and will issue secondary legislation without delay (MEFP ¶139). A Coordination Body has been formed to help assess the compliance of the provisions of the new law with existing legislation to ensure that existing transparency, integrity, and accountability provisions (e.g., on conflict of interest and asset declaration requirements for SOE managers) are retained. Given its importance and complexity, the authorities will prepare a draft bylaw on public service obligations ahead of the legal timeline (**new end-September 2024 SB**). Ensuring adequate capacity in all the involved institutions, in particular the Ministry of Economy, is fundamental to the successful implementation of the law.

37. AML/CFT reforms are continuing, including the implementation of EU Directives and Regulations. A new law on strengthening access to data on beneficial ownership is being operationalized. The authorities continue to improve the capacities of AML/CFT competent officials to deepen their regulatory, enforcement, and supervisory activities. In relation to the implications of the war in Ukraine and related sanctions on Russia, the NBS continues to monitor the situation

and, in particular, the implementation of targeted financial sanctions by regulated entities to prevent potential spillovers related to Russia's war in Ukraine.

PROGRAM MODALITIES

38. The authorities intend to treat the SBA as precautionary from this review, earlier than envisaged at the outset of the program. Despite the ongoing Russia's war in Ukraine and the Israel-Gaza conflict, Serbia's external environment is more supportive than projected at program inception, and, along with program reforms, mean that GIR is now above 150 percent of the ARA metric. Supportive conditions are expected to continue, and risks are now more balanced (Tables 4 and 5(a)). In the absence of an exceptional BoP financing need, the authorities do not plan to make an additional purchase (an additional SDR 316.53 million, about €399.9 million, would become available after completion of this, the 2nd SBA review), and intend instead to switch to a precautionary program mode now, instead of at the 3rd Review (Table 11).

39. The program remains fully financed, and Serbia's capacity to repay the Fund is assessed to be adequate. External developments have been favorable and risks declined, firm official financing commitments are in place for the next year with good prospects thereafter, and the authorities have demonstrated access to international capital market financing (Table 5a). Capacity to repay metrics have strengthened further since the 1st Review of the SBA (Table 5b and IMF Country Report No. 23/243). Under the baseline, with purchases of total authorized access, including precautionary tranches, of 290 percent of quota, Fund credit outstanding would reach a maximum of 3.1 percent of GDP, and 8.5 percent of gross reserves in 2024, while debt service to the Fund would peak at 1.8 percent of exports of goods and nonfactor services in 2027 before declining.

40. The authorities have requested modifications of program conditionality and new program conditionality (MEFP Tables 1a and 2):

- Raise the NIR floor to be consistent with GIR of 90 percent of the ARA metric (end-December 2023 and end-June 2024 QPCs, the end-March 2024 IT), as a first step to possibly raising the floor to be consistent with 100 percent of the ARA metric absent major negative shocks;
- Modification of the end-March 2024 IT and end-June 2024 QPC on primary current expenditure, consistent with the 2024 budget;
- New end-September 2024 ITs on the fiscal deficit and primary current expenditure, that are consistent with the 2024 budget, on the NIR floor, and all other PCs and ITs;
- Resetting the SB on a restructuring plan of EPS (end-December 2023 SB) to May 1, 2024 (MEFP ¶110) and modifying it—consistent with EPS's new legal form as a joint stock company—for approval to be given by the General Assembly of EPS, which comprises the Minister of Energy and Mining as the representative of the government as the 100 percent owner; and

- A prior action on approving the 2024 budget by the National Assembly in line with program understandings (MEFP ¶11).

41. New proposed structural benchmarks carry forward earlier policy commitments under the SBA on energy, on SOE reforms and on fiscal discipline (MEFP Table 2).

- A new structural benchmark on the EPS to approve a new electricity supply pricing system for the non-regulated sector, which will become effective with the consent of the General Assembly of the EPS as of November 1, 2024. This will allow for removing the cap on electricity prices for the non-regulated sector in an orderly manner (**end-August 2024 SB**, MEFP ¶17).
- A new structural benchmark on approving a **new gas pricing system** for the non-regulated sector, effective May 1, 2024, that will allow for removing gas price controls for the non-regulated sector in an orderly manner (**end-January 2024 SB**, MEFP ¶18).
- A new structural benchmark on a bylaw required for implementing the new SOE governance law, namely, preparing a draft bylaw on **public service obligations** and sending it to ministries and stakeholders with appropriate expertise for comments (**end-September 2024 SB**, MEFP ¶139).
- A new **continuous structural benchmark** on **pension spending** to reflect the authorities' affirmation to contain pension expenditure in 2024 as foreseen under the fiscal rule and not make any ad hoc pension increases or cash payments, thereby stabilizing this large and dynamic expenditure item (MEFP ¶113).

42. An update safeguards assessment of the National Bank of Serbia (NBS) was completed in June 2023. The safeguards framework of the NBS remains robust with strong operational controls, high quality financial reporting, and internal and external audit processes aligned with international standards. While the legal framework and governance arrangements are broadly appropriate, staff recommended further solidifying the Council's oversight by providing for recourse to external expertise (when needed) and efforts to strengthen the risk management function.

STAFF APPRAISAL

43. Serbia continues to make good progress under its Fund-supported SBA program.

Growth is recovering, the labor market is strong, and inflation is falling. A sharp turnaround in Serbia's current account and large FDI flows have seen reserves reach record highs. Fiscal consolidation continues at a measured pace and public debt continues to fall. With lower global energy prices and sizable tariff increases, energy sector companies' finances are stronger than at program inception.

44. Tighter monetary policy is likely needed to bring inflation securely back to target by program end. The NBS implemented successive policy rate hikes through the summer and inflation has fallen in line with program projections. But real ex-ante policy rates remain negative, and further

monetary policy tightening is likely needed to secure targeted disinflation unless inflation expectations fall materially soon.

45. Continued fiscal consolidation will help rein in debt, rebuild fiscal buffers, and aid disinflation. The approval of the 2024 budget that targets a deficit of 2.2 percent of GDP is consistent with an ongoing tight policy stance and with reducing the deficit to 1½ percent of GDP in 2025, in line with the fiscal rule. It is also important that aggregate public sector wages and pensions be increased only in accordance with the fiscal rule to control these large spending items. To underscore their commitment, the authorities are requesting a continuous structural benchmark that prohibits ad hoc increases or one-off pension payments. Despite recent ad hoc spending measures—these should be avoided in the future—and traditionally conservative revenue estimates, the agreed deficits provide ample room for needed public investment spending.

46. Fiscal structural reforms are deep and broad although challenges remain. Continued progress on public investment and fiscal risk management and stronger medium-term budgeting enhancing spending efficiency are welcome. Tax administration reforms continue apace. But challenges remain, including on widespread exemptions of large investment projects from selection and procurement regulations, and staffing problems at the Tax Administration.

47. Reforms to address deep-rooted energy sector weaknesses remain at the center of the program. Successive electricity tariff increases have secured medium-term cost recovery of the electricity company EPS and have addressed liquidity shortfalls in Srbijagas. Going forward, it is important to ensure sustainability of the electricity and gas pricing systems, and full medium-term cost recovery for Srbijagas. The remaining program reforms aim at securing these goals. Beyond pricing, with the EPS supervisory board in place, and hiring of a new CEO well advanced, the priority is to deliver on a broader restructuring plan for EPS and to avoid any further delays on this front.

48. Implementing the landmark SOE governance law is critical. It is important to build capacity within all the institutions that will be involved in the new processes of ownership management of SOEs, most importantly within the Ministry of Economy.

49. The financial sector appears sound, yet continued vigilance is needed in a higher-for-longer interest rate environment. The temporary interest rate cap on mortgages should be allowed to lapse as scheduled at the end of 2024. Ongoing progress towards fully aligning the supervisory framework towards international standards is welcome.

50. Risks to the program appear to have fallen since program inception. Remaining risks include geopolitical and energy sector developments, uncertainties over trading partner growth, a still-challenging inflation environment, and renewed global financial market instability.

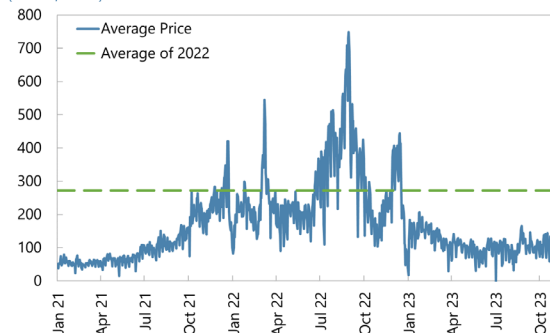
51. Staff supports the authorities' request for completion of the 2nd Review under the SBA. Staff also supports the authorities' requests for modified and new performance criteria, indicative targets, and structural benchmarks.

Figure 1. Serbia: Regional Import Prices, 2021-23¹

Regional electricity prices ...

Hungarian Power Exchange Electricity Average Price

(in EUR/MWh)

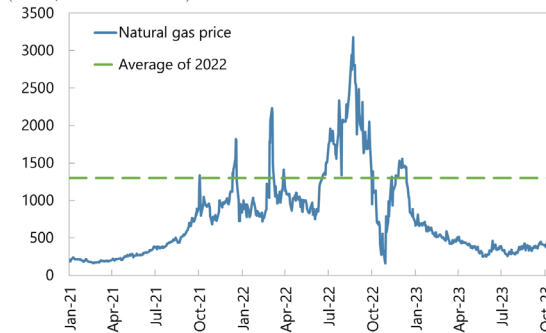


Source: HUPX.

... the reference price for natural gas prices ...

Dutch TTF Natural Gas Price

(in EUR/1000 Cubic Meters)

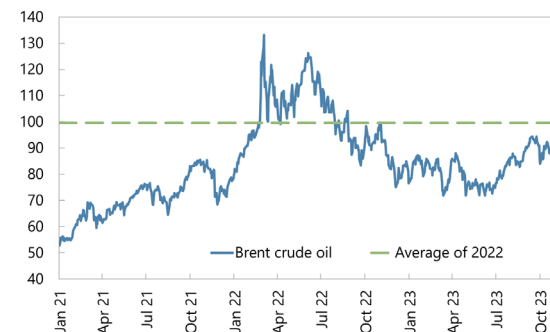


Source: Bloomberg.

... the oil price ...

Brent Crude Oil Price

(in USD/Barrel)

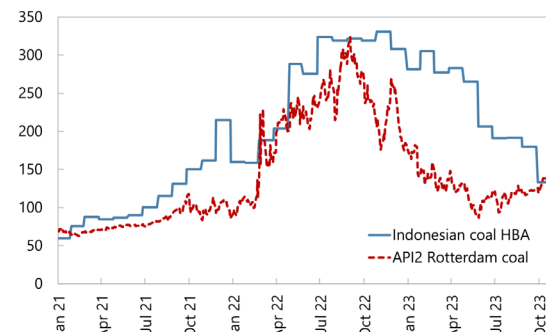


Source: Bloomberg.

... and coal prices have, despite recent upticks, all declined significantly since their summer 2022 peak.

Indonesian and Rotterdam Coal Prices

(in USD/metric tonne)

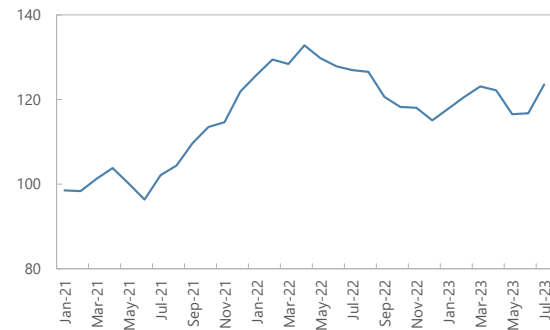


Source: Bloomberg.

While international food prices have remained elevated ...

International Commodity Food Price Index

(Index, 2016=100)

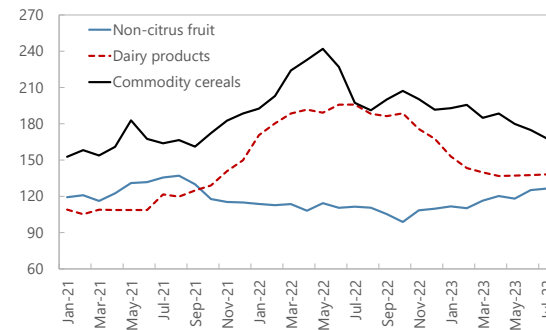


Source: IMF GAS database.

... the price of non-citrus fruits, a major Serbian export, remains relatively low, even as the overall ToT improved.

Key International Food Prices

(Index, 2016=100)



Source: IMF GAS database.

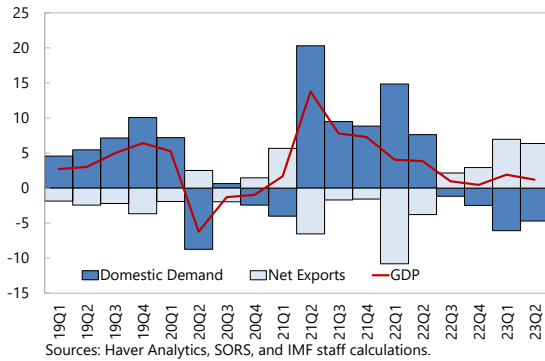
1/ Serbia's energy imports mainly follow European prices. It also imports coal from Indonesia.

Figure 2. Serbia: Real Sector Developments

High inflation, fiscal tightening, and inventory draw-down are all weighing on domestic demand.

Serbia: Contribution to Growth

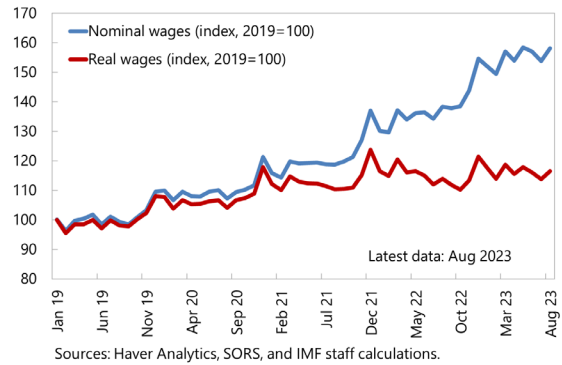
(Percent, Y/Y)



Real wages are flat ...

Serbia: Net Wages

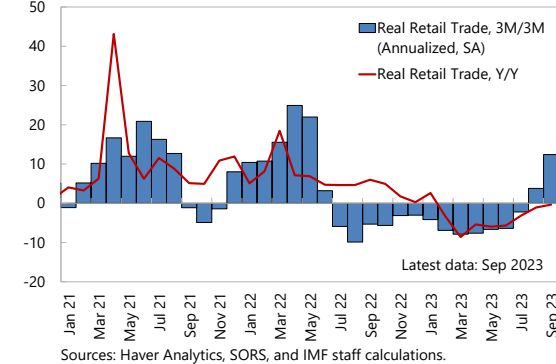
(Index, Jan 2019 = 100)



... constraining real retail spending growth.

Serbia: Retail Turnover

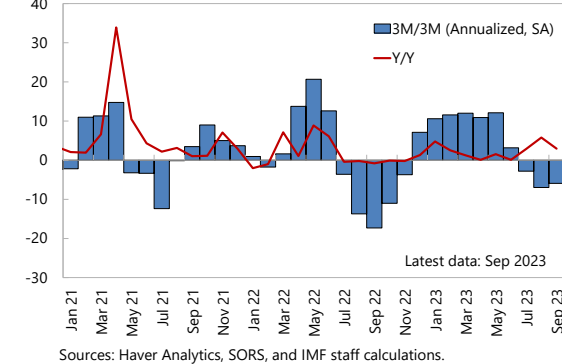
(Percent)



Industrial production has weakened in recent months ...

Serbia: Industrial Production

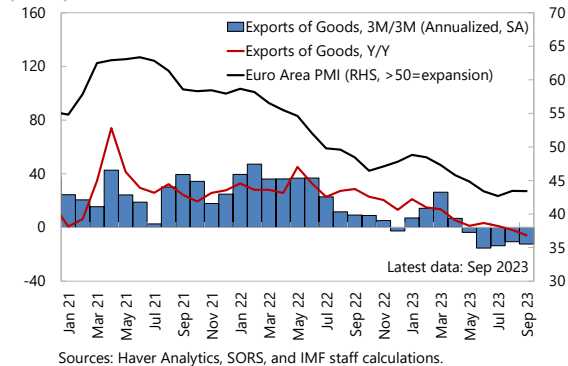
(Percent)



... and goods exports have shrunk recently as trading partner growth has weakened.

Serbia: Exports of Goods and Euro Area PMI

(Percent)



But goods imports have slowed by more, and with strong net service exports, net trade has supported growth.

Serbia: Imports of Goods

(Percent)

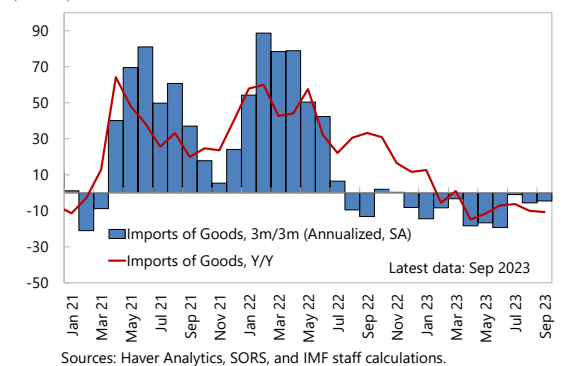
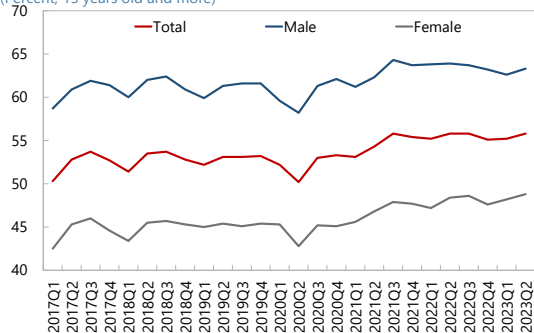


Figure 3. Serbia: Labor Market Developments

Labor force participation has increased ...

Serbia: Labor Participation Rate

(Percent, 15 years old and more)

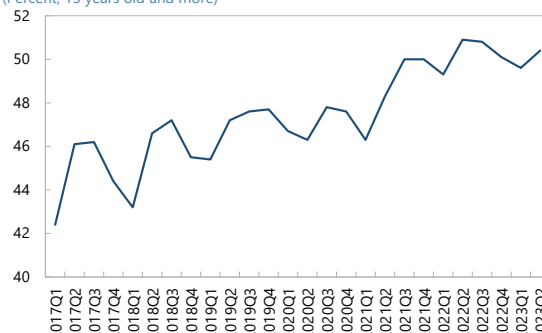


Sources: SORS.

... as employment has grown ...

Serbia: Employment Rate

(Percent, 15 years old and more)

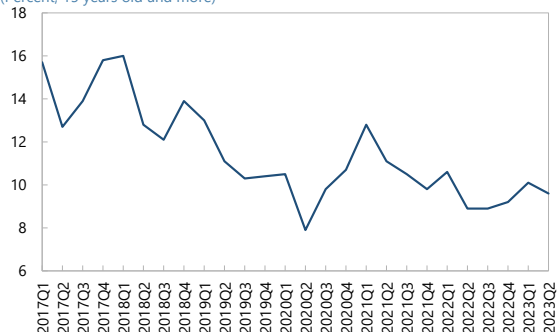


Sources: SORS.

... and unemployment remains close to historic lows.

Serbia: Unemployment Rate

(Percent, 15 years old and more)

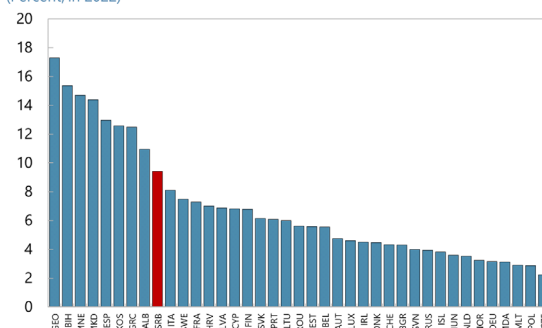


Source: SORS.

Unemployment remains high, however, relative to country peers.

Unemployment Rate

(Percent; in 2022)

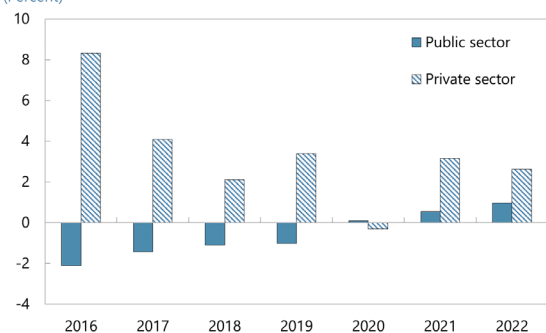


Source: Haver Analytics.

Employment growth has been driven by the private sector.

Serbia: Employment Growth

(Percent)

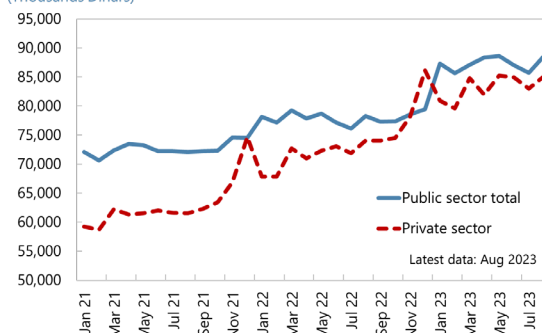


Sources: SORS, and IMF staff calculations.

And private sector wages have been converging to those in the public sector.

Serbia: Average Monthly Net Real Wages

(Thousands of Dinars)



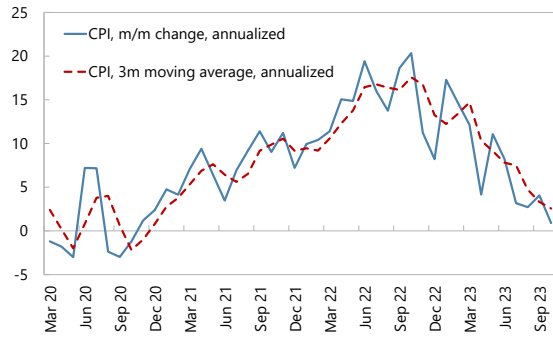
Sources: SORS, and IMF staff calculations.

Figure 4. Serbia: Inflation and Monetary Policy

Inflation momentum is slowing ...

Serbia: Inflation Momentum

(Percentage point change; seasonally adjusted)

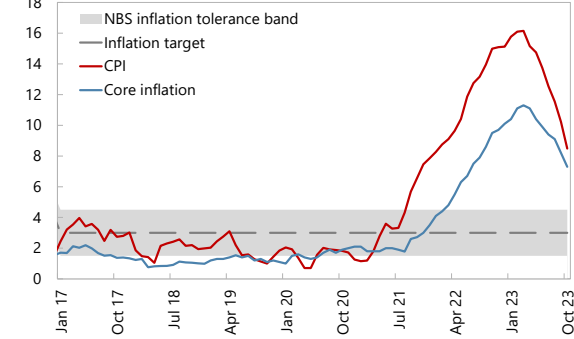


Sources: Haver Analytics, and IMF staff calculations.

... but remains well above target.

Serbia: Inflation

(Percent; Y/Y)

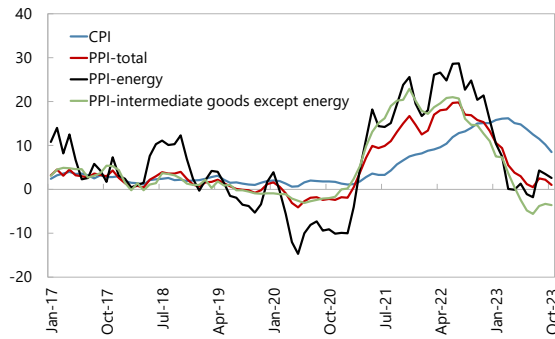


Sources: NBS, and IMF staff calculations.

PPI has declined sharply, ahead of CPI, since mid-2022.

Serbia: CPI vs. PPI

(Percent; y/y change)

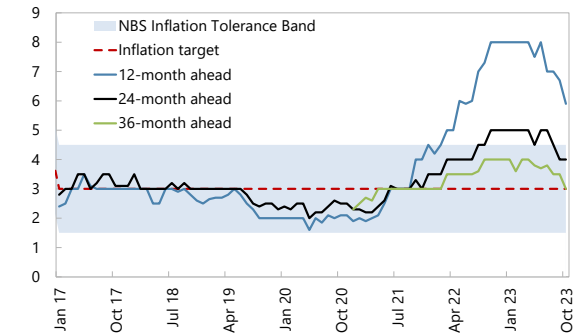


Source: Haver Analytics.

1-year ahead inflation expectations are elevated but have started to fall.

Serbia: Inflation Expectations of Financial Sector

(Percent)

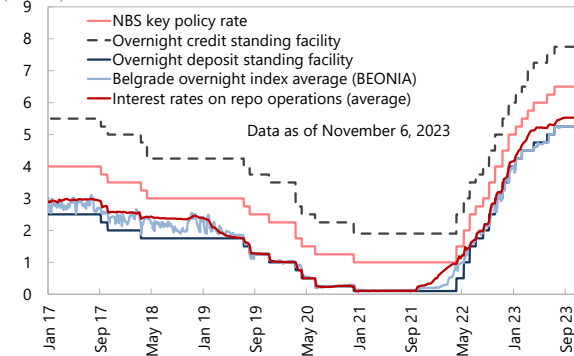


Sources: NBS, and IMF staff calculations.

Since April 2022, the NBS has increased the policy rate in successive steps to 6.5 percent ...

Serbia: Interest Rates

(Percent)

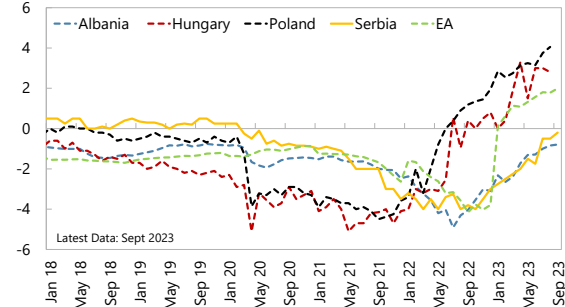


Sources: NBS; and Haver Analytics.

... although the rate remains negative in real terms and low compared to peer countries.

Policy Rate in Real Terms in Selected Countries

(Percent)



Sources: Haver Analytics, and IMF staff calculations.

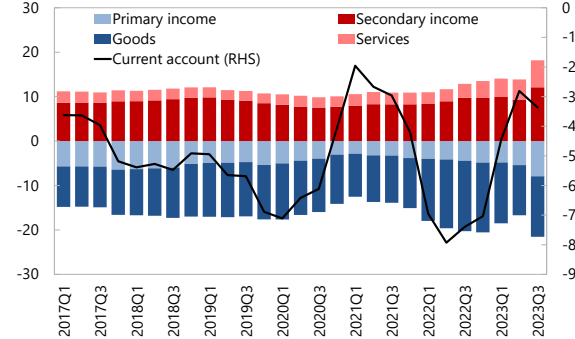
Note: Nominal policy rates adjusted by 1- year ahead inflation expectations.

Figure 5. Serbia: Balance of Payments

The current account deficit has narrowed sharply ...

Serbia: Current Account Balance

(Percent of GDP; 4Q moving sum)

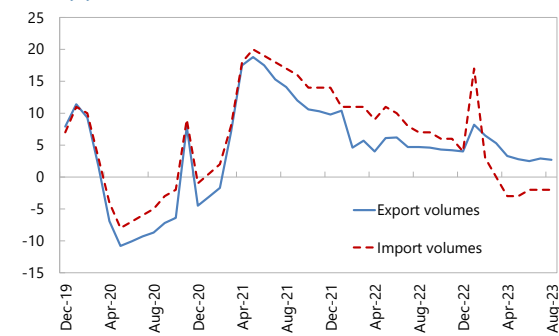


Sources: Haver Analytics, and IMF staff calculations.

... and resilient exports while imports fell sharply.

Serbia: Volume Growth

(Percent, yoy)

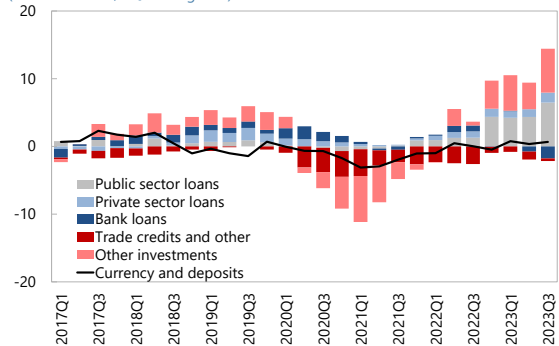


Source: Haver Analytics.

And other investments inflows have rebounded based on intracompany and official borrowing.

Serbia: Other Investments

(Percent of GDP; 4Q moving sum)

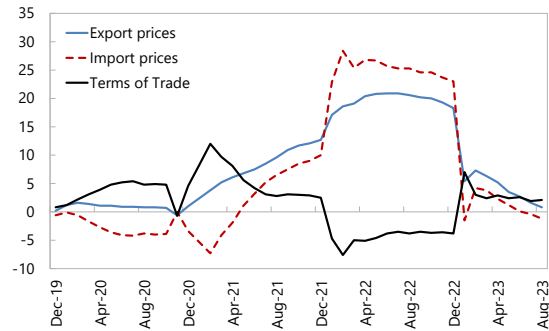


Sources: Haver Analytics, and IMF staff calculations.

... based on improved terms of trade, particularly energy prices ...

Serbia: Price Changes

(Percent, yoy)

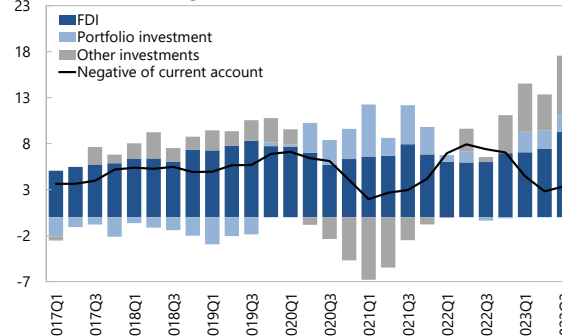


Source: Haver Analytics.

FDI remains robust, more than covering the current account deficit.

Serbia: Financial Account Composition

(Percent of GDP; 4Q moving sum)

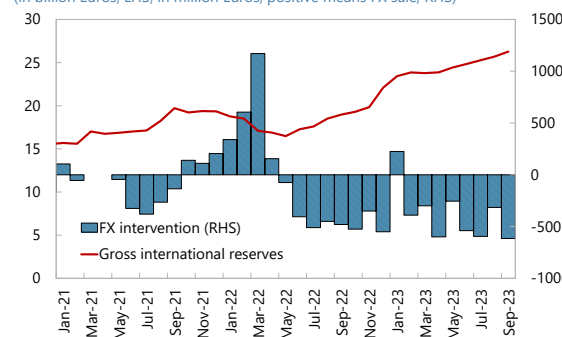


Sources: Haver Analytics, and IMF staff calculations.

Reserves have reached historic highs despite the 2022 energy shock.

Serbia: Reserves and Interventions

(in billion Euros, LHS; in million Euros, positive means FX sale, RHS)



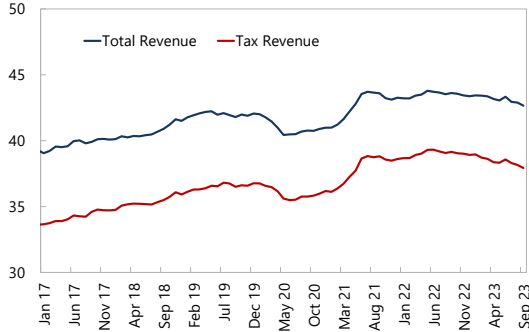
Source: NBS, and Haver Analytics.

Figure 6. Serbia: Fiscal Developments

Revenue collection continues to perform well ...

Serbia: Total Revenue Composition

(Percent of GDP, 12M sum)

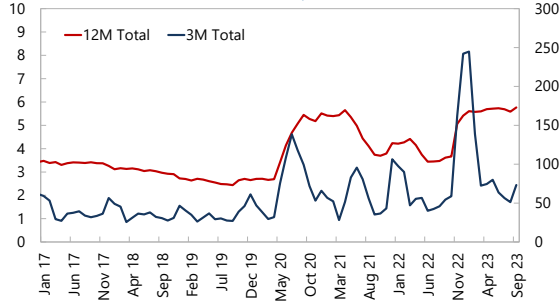


Sources: Ministry of Finance and IMF staff calculations.

Support to companies was boosted during the pandemic and the energy crisis ...

Serbia: State Aid 2/

(Percent of GDP YTD, LHS; Billions Dinars, RHS)



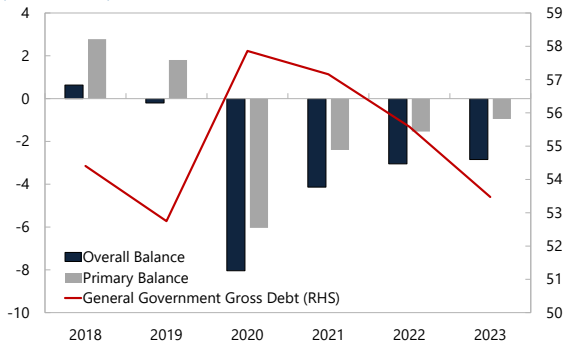
Sources: Ministry of Finance and IMF staff calculations.

2/ State aid includes direct subsidies, net lending through the budget, assumption of SOE's debt, and the service of guaranteed debt called by creditors.

The fiscal deficit and public debt have declined since the pandemic spike.

Serbia: Fiscal Balance and Debt

(Percent of GDP)

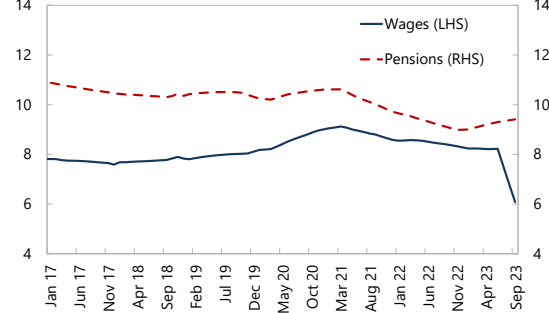


Sources: Ministry of Finance and IMF staff calculations.

... while public sector wage and pension bills have declined as a share of GDP.

Serbia: Wages and Pensions 1/

(Percent of GDP, 12M sum)



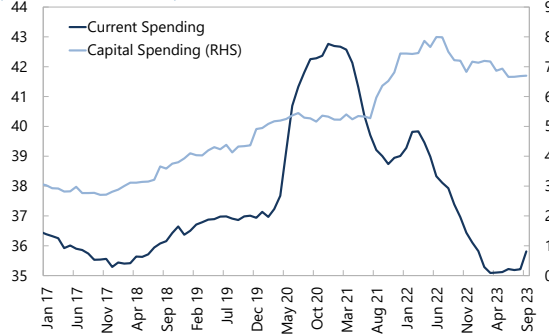
Sources: Ministry of Finance and IMF staff calculations.

1/ Excludes employers' contributions

... and public capital spending remains high.

Serbia: Current and Capital Spending

(Percent of GDP, 12M sum)

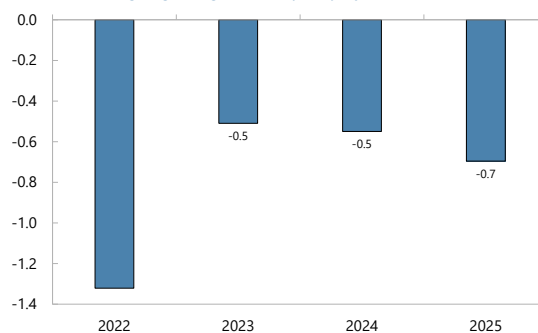


Sources: Ministry of Finance and IMF staff calculations.

Fiscal adjustment is proceeding at a measured pace.

Serbia: Fiscal Impulse

(Percent of GDP; change in general government cyclically adjusted overall balance)



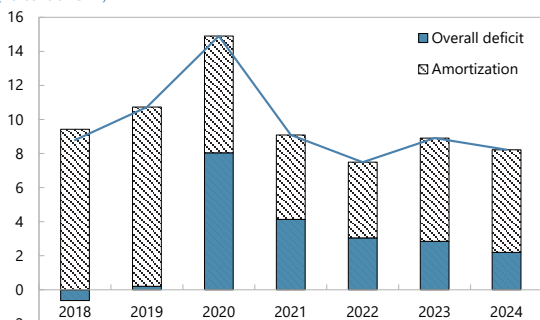
Source: IMF staff calculations.

Figure 7. Serbia: Fiscal Financing

Fiscal financing needs are expected to fall as the deficit declines and amortization needs ease.

Serbia: Gross Financing Needs

(Percent of GDP)

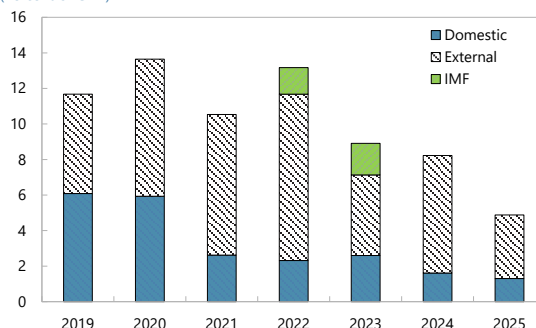


Sources: Ministry of Finance and IMF staff calculations.

Financing has come of late mainly from external sources.

Serbia: Sources of Financing

(Percent of GDP)

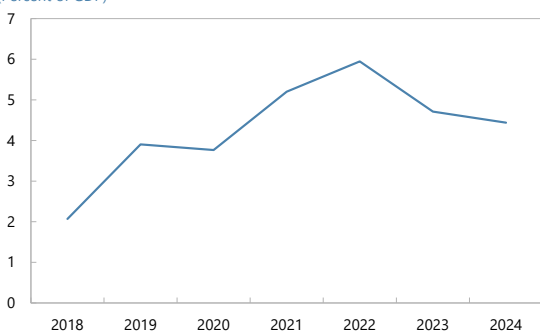


Sources: Ministry of Finance and IMF staff calculations.

A large accumulation of deposits has taken place.

Serbia: Stock of Government Liquid Deposits

(Percent of GDP)

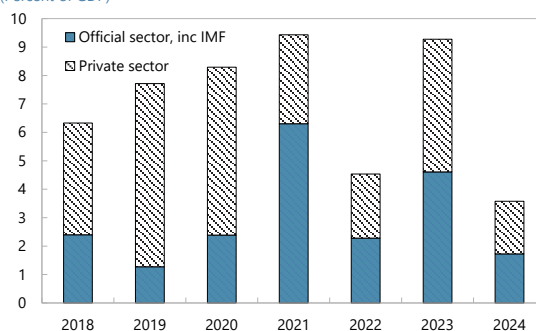


Sources: Ministry of Finance and IMF staff calculations.

A significant share of external financing is expected to come from the official sector.

Serbia: External Financing

(Percent of GDP)

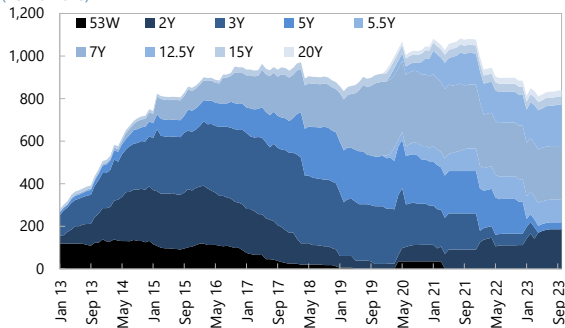


Sources: Ministry of Finance and IMF staff calculations.

Most domestic debt is issued as securities, with the average maturity increasing.

Serbia: Domestic Debt Stock 1/

(RSD billions)



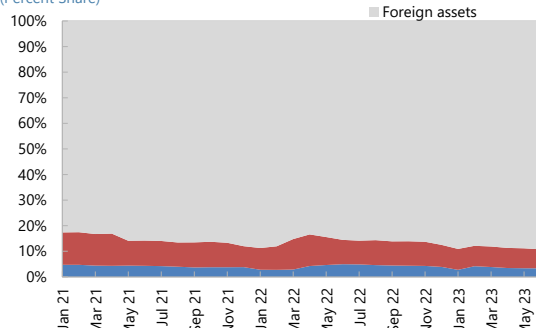
Source: NBS.

1/ Sum of dinar and FX-denominated securities at current exchange rate

Only a small share of government debt is held by the NBS.

Serbia: NBS Total Assets

(Percent Share)



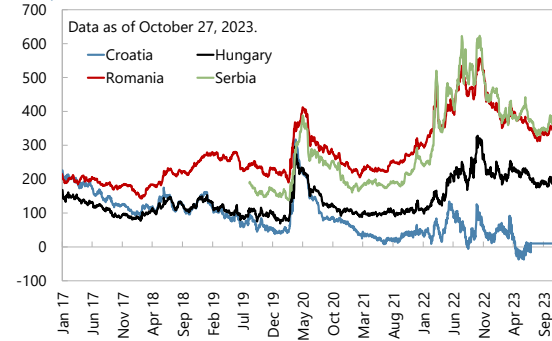
Sources: NBS and IMF staff calculations.

Figure 8. Serbia: Financial and Exchange Rate Developments

EMBIG spreads are narrowing.

Sovereign Risk - Euro EMBIG Spreads

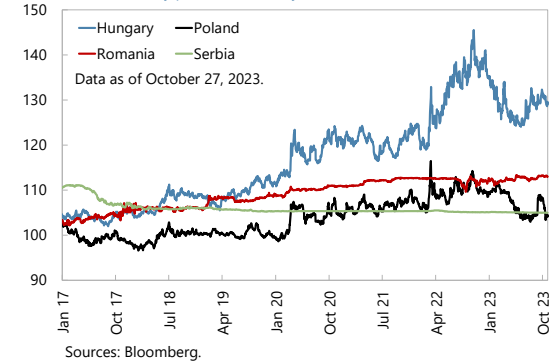
(Basis points)



The NBS maintains a de-facto stabilized exchange rate regime ...

Exchange Rates in the Region

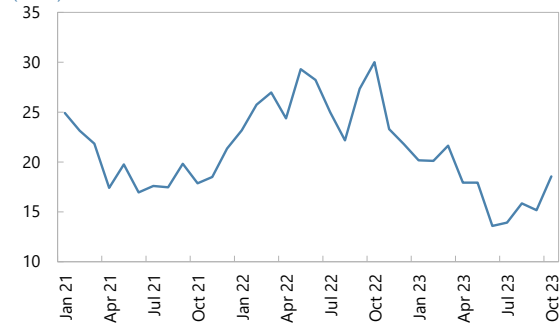
(Index, national currency per Euro, end-May 2013=100)



Global risk aversion has recently started increasing.

CBOE Volatility Index (VIX)

(Index)



... with ongoing FX intervention.

Serbia: Reserves and Interventions

(in billion Euros, LHS; in million Euros, positive means FX sale, RHS)

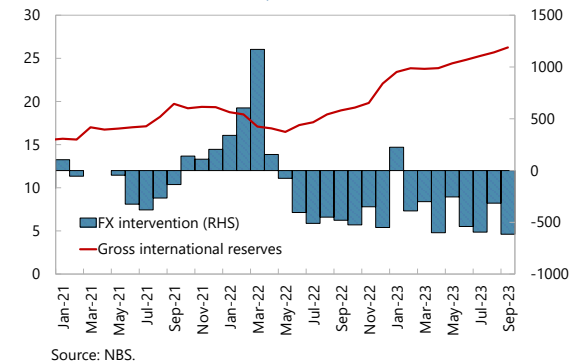
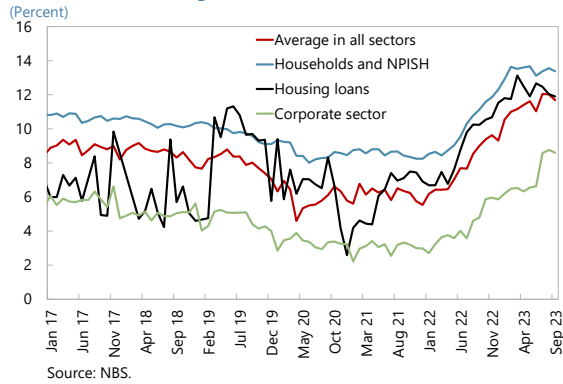


Figure 9. Serbia: Selected Interest Rates and Credit Development

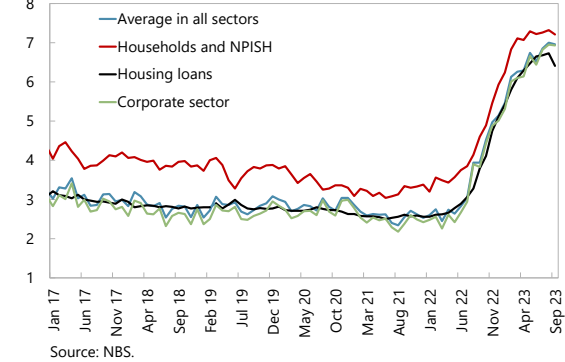
Lending rates have increased for RSD-denominated debt

Serbia: Bank Lending Interest Rates (RSD)



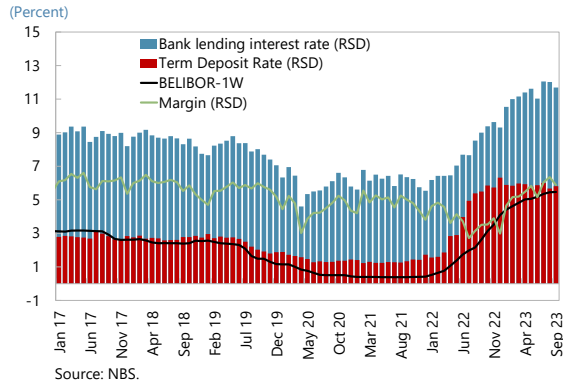
... and for FX and FX-linked loans.

Serbia: Bank Lending Interest Rates (FX and FX-linked)



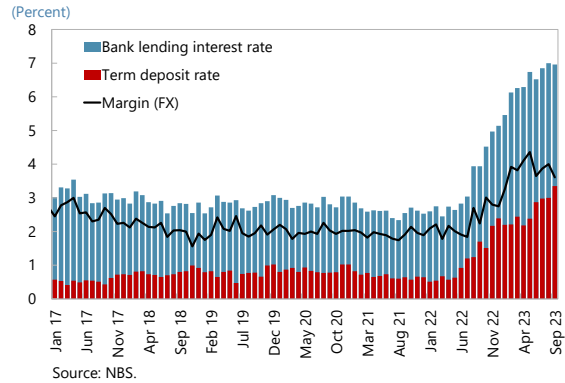
RSD lending margins have increased ...

Serbia: Selected Interest Rates (RSD)



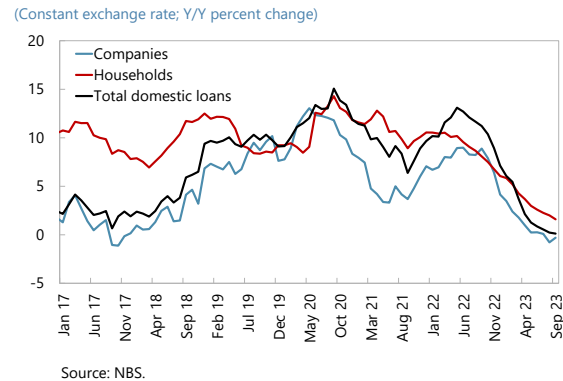
... as have FX lending spreads.

Serbia: Selected Interest Rates (FX and FX-linked)



Credit growth is slowing ...

Serbia: Credit Growth to Private Sector



... and credit standards have remained tight.

Serbia: Credit Standards

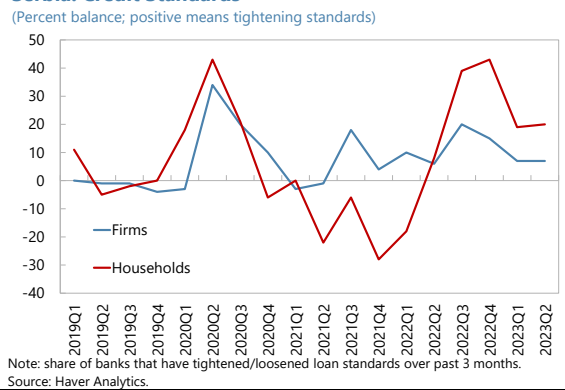


Table 1. Selected Economic and Social Indicators, 2022–28

	2022	2023		2024		2025	2026	2027	2028
		CR 23/243	Proj.	CR 23/243	Proj.	Proj.	Proj.	Proj.	Proj.
(Percent change, unless otherwise indicated)									
Real sector									
Real GDP	2.5	2.0	2.4	3.0	3.3	4.5	4.0	4.0	4.0
Real domestic demand (absorption)	4.1	1.7	-0.3	2.8	3.2	4.8	4.6	4.5	4.6
Consumer prices (average)	12.0	12.4	12.3	5.3	5.3	3.5	3.2	3.0	3.0
Consumer prices (end of period)	15.1	8.2	8.0	4.0	4.0	3.5	3.2	3.0	3.0
GDP deflator	10.4	12.1	11.5	5.1	4.8	3.9	3.3	3.1	3.1
Unemployment rate (in percent) 1/	9.4	9.1	9.1	9.0	9.0	8.8	8.7	8.6	8.4
Nominal GDP (in billions of dinars)	7,098	8,109	8,104	8,784	8,774	9,526	10,238	10,969	11,756
(Percent of GDP)									
General government finances									
Revenue 2/	43.3	42.1	42.5	42.1	42.6	42.8	42.6	42.6	42.6
Expenditure 2/	46.4	44.9	45.4	44.2	44.8	44.3	44.1	44.1	44.1
Current 2/	36.1	36.5	37.0	36.8	37.1	36.7	36.9	36.8	36.9
Capital and net lending	10.1	8.1	8.0	7.0	7.3	7.2	6.9	6.9	6.9
Amortization of called guarantees	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Fiscal balance 3/	-3.0	-2.8	-2.8	-2.0	-2.2	-1.5	-1.5	-1.5	-1.5
Primary fiscal balance (cash basis)	-1.5	-1.0	-1.0	0.0	-0.1	0.3	0.3	0.2	0.3
Gross debt 4/	55.6	55.3	53.5	53.3	52.0	49.7	46.2	43.8	42.2
(End of period 12-month change, percent)									
Monetary sector									
Broad money (M2)	6.9	11.3	8.1	8.7	5.1	5.7	3.6	3.8	4.1
Domestic credit to non-government 5/	7.4	5.9	1.1	11.6	3.9	4.5	3.5	6.8	6.9
(End of period, percent)									
Interest rates (dinar)									
NBS key policy rate	5.0	...	...	...	...	...	...	...	...
Interest rate on new FX and FX-indexed loans	5.1	...	...	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)									
Balance of payments									
Current account balance	-6.9	-4.7	-2.3	-4.6	-3.3	-3.5	-4.0	-4.1	-4.4
Trade of goods balance	-15.5	-11.9	-8.7	-10.8	-8.9	-8.8	-9.0	-8.8	-8.8
Exports of goods	44.5	42.9	43.4	43.7	43.6	43.4	43.9	44.7	45.6
Imports of goods	-60.0	-54.8	-52.1	-54.5	-52.6	-52.3	-52.9	-53.5	-54.3
Capital and financial account balance	9.4	6.7	8.4	7.0	6.1	6.3	5.5	4.9	5.5
External debt (percent of GDP)	72.0	66.8	66.3	63.8	63.9	61.3	58.0	54.0	50.7
of which: Private external debt	32.7	28.9	29.6	26.9	27.7	25.8	24.6	23.0	21.7
Gross official reserves (in billions of euro)	19.4	22.0	24.6	24.0	27.5	30.3	31.5	31.7	32.8
(in months of prospective imports)	5.2	5.6	6.6	5.7	6.7	6.8	6.6	6.1	5.8
(percent of short-term debt)	399.0	451.6	504.6	493.2	565.6	623.0	648.1	650.5	673.2
(percent of risk-weighted metric) 6/	134.0	143.1	158.5	145.3	164.9	161.6	158.5	150.9	150.8
Exchange rate (dinar/euro, period average)	117.5	...	...	...	...	...	...	...	...
REER (annual average change, in percent; + indicates appreciation)	3.3	...	...	...	...	...	...	...	...
Social indicators									
Per capita GDP (in US\$)	9,538	10,802	11,314	11,683	12,380	13,548	14,617	15,639	16,651
Population (in million)	6.7	6.8	6.6	6.8	6.6	6.6	6.6	6.5	6.5

Sources: NBS, Ministry of Finance, SORS, and IMF staff estimates and projections.

1/ Unemployment rate of the 15-64 year old labor force.

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

4/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis. Includes restitution bonds.

5/ At constant exchange rates.

6/ The risk-weighted metric is the IMF's ARA metric under fixed exchange rate. Serbia was reclassified as a de facto stabilized exchange rate regime in 2018.

Table 2. Medium-Term Framework, 2022–28

	2022	2023		2024		2025	2026	2027	2028
		CR 23/243	Proj.	CR 23/243	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change)								
Real sector									
GDP growth	2.5	2.0	2.4	3.0	3.3	4.5	4.0	4.0	4.0
Domestic demand (contribution)	4.6	1.9	-0.3	3.2	3.5	5.3	5.1	5.0	5.1
Net exports (contribution)	-2.1	0.1	2.7	-0.2	-0.2	-0.8	-1.1	-1.0	-1.1
Consumer price inflation (average)	12.0	12.4	12.3	5.3	5.3	3.5	3.2	3.0	3.0
Consumer price inflation (end of period)	15.1	8.2	8.0	4.0	4.0	3.5	3.2	3.0	3.0
Output gap (in percent of potential)	0.5	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Potential GDP growth	3.1	2.9	3.2	2.9	3.1	4.5	4.0	4.0	4.0
Domestic credit to non-government 1/	7.4	5.9	1.1	11.6	3.9	4.5	3.5	6.8	6.9
	(Percent of GDP, unless otherwise indicated)								
General government									
Revenue 2/	43.3	42.1	42.5	42.1	42.6	42.8	42.6	42.6	42.6
Expenditure 2/	46.4	44.9	45.4	44.2	44.8	44.3	44.1	44.1	44.1
Current 2/	36.1	36.5	37.0	36.8	37.1	36.7	36.9	36.8	36.9
of which: Wages and salaries 2/	9.6	9.7	9.7	9.9	10.0	10.0	10.0	10.0	10.0
of which: Pensions	9.0	9.6	9.6	10.5	10.3	10.2	10.2	10.1	10.1
of which: Goods and services	9.6	8.9	9.3	8.3	8.8	8.8	8.9	8.9	9.0
Capital and net lending	10.1	8.1	8.0	7.0	7.3	7.2	6.9	6.9	6.9
Amortization of called guarantees	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Unidentified measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal balance 3/	-3.0	-2.8	-2.8	-2.0	-2.2	-1.5	-1.5	-1.5	-1.5
Gross debt 4/	55.6	55.3	53.5	53.3	52.0	49.7	46.2	43.8	42.2
Effective interest rate on government borrowing (percent)	2.9	3.7	3.9	4.0	4.2	3.8	3.8	4.0	4.6
Domestic borrowing (including FX)	5.0	5.4	5.4	6.1	6.1	6.2	6.7	7.0	6.9
External borrowing	2.1	2.0	2.0	2.9	2.9	3.0	3.3	3.8	3.9
	(Percent of GDP, unless otherwise indicated)								
Balance of payments									
Current account	-6.9	-4.7	-2.3	-4.6	-3.3	-3.5	-4.0	-4.1	-4.4
of which: Trade balance	-15.5	-11.9	-8.7	-10.8	-8.9	-8.8	-9.0	-8.8	-8.8
of which: Current transfers, net (excl. grants)	8.9	8.2	7.1	7.6	6.7	6.5	6.3	6.2	6.1
Capital and financial account	9.4	6.7	8.4	7.0	6.1	6.3	5.5	4.9	5.5
of which: Foreign direct investment	7.1	6.1	5.9	5.7	5.5	5.4	5.4	5.4	5.3
External debt (end of period)	72.0	66.8	66.3	63.8	63.9	61.3	58.0	54.0	50.7
of which: Private external debt	32.7	28.9	29.6	26.9	27.7	25.8	24.6	23.0	21.7
Gross official reserves									
(in billions of euros)	19.4	22.0	24.6	24.0	27.5	30.3	31.5	31.7	32.8
(in percent of short-term external debt)	399.0	451.6	504.6	493.2	565.6	623.0	648.1	650.5	673.2
REER (ann. av. change; + = appreciation)	3.3	...	...	...	...	...	...	...	...

Sources: NBS, Ministry of Finance, SORS; and IMF staff estimates and projections.

1/ Using constant dinar/euro and dinar/swiss franc exchange rates for converting FX and FX-indexed loans to dinars.

2/ Includes employer contributions.

3/ Includes amortization of called guarantees.

4/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis. Includes restitution bonds.

Table 3. Growth Composition, 2022–28

	2022	2023		2024		2025	2026	2027	2028
		CR 23/243	Proj.	CR 23/243	Proj.	Proj.	Proj.	Proj.	Proj.
(Percent change, unless otherwise indicated)									
Real GDP									
Gross Domestic Product (GDP)	2.5	2.0	2.4	3.0	3.3	4.5	4.0	4.0	4.0
Domestic demand (absorption)	4.1	1.7	-0.3	2.8	3.2	4.8	4.6	4.5	4.6
Consumption	3.0	1.7	0.8	2.6	2.8	4.3	4.1	4.2	4.2
Non-government	3.7	1.5	0.5	2.5	3.5	4.5	4.0	4.0	4.0
Government	0.2	2.6	2.0	3.2	-0.3	3.6	4.7	5.0	5.1
Investment	7.6	1.6	-3.5	3.5	4.5	6.2	6.2	5.5	5.8
Gross fixed capital formation	-0.6	7.9	4.1	2.9	1.8	4.8	4.9	5.0	4.9
Non-government	-0.7	4.0	2.0	3.0	3.0	5.0	5.0	5.0	5.0
Government	0.0	23.6	12.7	2.5	-2.5	4.1	4.3	5.0	4.6
Exports of goods and services	17.6	5.5	5.1	5.3	4.7	5.8	5.9	6.2	6.0
Imports of goods and services	17.8	4.5	1.0	4.7	4.3	6.0	6.5	6.6	6.5
(Contributions to GDP growth, percent)									
Real GDP									
Gross Domestic Product (GDP)	2.5	2.0	2.4	3.0	3.3	4.5	4.0	4.0	4.0
Domestic demand (absorption)	4.6	1.9	-0.3	3.2	3.5	5.3	5.1	5.0	5.1
Net exports of goods and services	-2.1	0.1	2.7	-0.2	-0.2	-0.8	-1.1	-1.0	-1.1
Consumption	2.6	1.4	0.7	2.2	2.3	3.6	3.4	3.5	3.5
Non-government	2.5	1.1	0.3	1.7	2.4	3.1	2.7	2.7	2.7
Government	0.0	0.4	0.3	0.5	-0.1	0.5	0.7	0.7	0.8
Investment	2.0	0.5	-1.0	1.0	1.2	1.6	1.7	1.5	1.6
Gross fixed capital formation	-0.1	1.9	1.0	0.7	0.4	1.1	1.2	1.2	1.2
Non-government	-0.1	0.8	0.4	0.6	0.6	0.9	0.9	1.0	1.0
Government	0.0	1.1	0.6	0.1	-0.1	0.2	0.2	0.2	0.2
Change in inventories	2.2	-1.4	-1.9	0.2	0.7	0.5	0.5	0.3	0.4
Exports of goods and services	10.4	3.8	3.5	3.7	3.3	4.1	4.2	4.5	4.5
Imports of goods and services	12.5	3.7	0.8	3.9	3.4	4.8	5.3	5.5	5.6
(Percent change, unless otherwise indicated)									
Nominal GDP									
Gross Domestic Product (GDP)	13.2	14.4	14.2	8.3	8.3	8.6	7.5	7.1	7.2
Domestic demand (absorption), contribution to GDP growth	17.4	12.3	8.0	8.4	9.5	8.9	8.2	7.4	7.6
Net exports of goods and services, contribution to GDP growth	-4.3	2.0	6.3	-0.1	-1.3	-0.3	-0.7	-0.3	-0.4
Consumption	14.6	13.3	10.3	8.2	8.9	8.3	7.6	7.1	7.1
Non-government	16.0	13.2	9.7	8.0	9.2	8.2	7.4	7.1	7.1
Government	9.2	13.9	12.8	9.4	7.5	8.8	8.4	7.1	7.2
Investment	21.1	4.3	-2.5	6.4	10.2	9.3	8.7	6.8	7.6
Gross fixed capital formation	11.8	14.1	7.0	5.9	6.2	7.9	7.9	7.1	7.5
Non-government	13.2	7.7	3.5	6.1	8.1	8.1	8.1	7.1	7.6
Government	9.0	28.1	14.4	5.6	2.4	7.2	7.5	7.1	7.2
Exports of goods and services	31.7	8.6	9.5	8.8	8.3	8.1	8.0	8.4	8.2
Imports of goods and services	34.7	4.6	-0.4	8.0	9.7	8.1	8.5	8.2	8.2
Memorandum items									
Nominal GDP (billions of dinars)	7,098	8,109	8,104	8,784	8,774	9,526	10,238	10,969	11,756
GDP deflator (percent)	10.4	12.1	11.5	5.1	4.8	3.9	3.3	3.1	3.1

Sources: SORS; and IMF staff estimates and projections.

Table 4a. Balance of Payments (Billions of Euros), 2022–28¹

	2022	2023		2024		2025	2026	2027	2028
		CR 23/243	Proj.	CR 23/243	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-4.1	-3.3	-1.6	-3.5	-2.5	-2.8	-3.5	-3.8	-4.3
Trade of goods balance	-9.4	-8.2	-6.0	-8.1	-6.7	-7.2	-7.8	-8.2	-8.7
Exports of goods	26.9	29.6	30.0	32.7	32.6	35.3	38.3	41.7	45.3
Imports of goods	-36.3	-37.8	-35.9	-40.8	-39.3	-42.5	-46.1	-49.9	-54.0
Services balance	2.3	2.4	2.7	2.1	2.5	2.7	2.7	2.8	2.8
Exports of nonfactor services	11.1	11.7	11.7	12.2	12.4	13.4	14.3	15.3	16.4
Imports of nonfactor services	-8.8	-9.3	-8.9	-10.1	-9.9	-10.7	-11.6	-12.6	-13.6
Income balance	-3.0	-3.4	-3.6	-3.4	-3.6	-4.0	-4.3	-4.6	-4.9
Net interest	-0.8	-0.8	-0.7	-0.8	-0.8	-1.0	-1.1	-1.2	-1.3
Others, including reinvested earnings	-2.2	-2.7	-2.9	-2.6	-2.8	-2.9	-3.1	-3.4	-3.6
Current transfer balance	5.9	6.0	5.3	5.9	5.3	5.6	5.9	6.2	6.5
Official grants	0.6	0.4	0.4	0.2	0.3	0.3	0.3	0.4	0.4
Others, including private remittances	5.4	5.6	4.9	5.7	5.0	5.3	5.5	5.8	6.1
Capital and financial account balance 1/	5.7	4.6	5.8	5.2	4.5	5.1	4.8	4.6	5.5
Capital transfer balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment balance	4.3	4.2	4.1	4.2	4.1	4.4	4.7	5.0	5.3
Portfolio investment balance	-0.1	1.0	0.8	2.7	1.3	1.4	1.1	0.3	1.1
of which: debt liabilities	-0.1	1.0	0.8	2.7	1.3	1.4	1.1	0.3	1.1
Other investment balance	1.4	-0.6	0.9	-1.7	-0.9	-0.6	-1.0	-0.7	-0.9
Public sector 1/ 2/	1.6	0.6	0.4	-1.4	0.0	0.2	-0.3	0.2	0.1
Domestic banks	0.6	-0.6	0.6	0.0	0.0	-0.1	-0.1	-0.2	-0.2
Other private sector 3/	-0.8	-0.6	-0.2	-0.3	-0.9	-0.7	-0.6	-0.7	-0.8
Errors and omissions	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.9	1.4	4.6	1.8	2.1	2.3	1.2	0.7	1.2
Financing	-1.9	-1.4	-4.6	-1.8	-2.1	-2.3	-1.2	-0.7	-1.2
Gross international reserves (increase, -)	-2.9	-2.6	-5.1	-2.0	-3.0	-2.8	-1.2	-0.1	-1.1
Financing Gap	1.0	1.2	0.6	0.2	0.9	0.5	0.0	-0.6	-0.1
Use of Fund credit, net	1.0	0.6	0.2	0.0	0.0	0.0	-0.6	-0.6	-0.1
Purchases	1.0	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.6	-0.1
Development partners	0.0	0.5	0.4	0.2	0.9	0.5	0.5	0.0	0.0
Memorandum item									
GDP (billions of euros)	60.4	68.9	69.0	74.8	74.8	81.3	87.2	93.3	99.4

Sources: NBS; and IMF staff estimates and projections.

1/ Excluding net use of IMF resources.

2/ Includes SDR allocations in 2021.

3/ Includes trade credits (net).

Table 4b. Balance of Payments (Percent of GDP), 2022–28¹

	2022	2023		2024		2025	2026	2027	2028	
		CR 23/243	Proj.	CR 23/243	Proj.	Proj.	Proj.	Proj.	Proj.	
Current account balance	-6.9	-4.7	-2.3	-4.6	-3.3	-3.5	-4.0	-4.1	-4.4	
Trade of goods balance	-15.5	-11.9	-8.7	-10.8	-8.9	-8.8	-9.0	-8.8	-8.8	
Exports of goods	44.5	42.9	43.4	43.7	43.6	43.4	43.9	44.7	45.6	
Imports of goods	-60.0	-54.8	-52.1	-54.5	-52.6	-52.3	-52.9	-53.5	-54.3	
Services balance	3.8	3.4	3.9	2.8	3.4	3.3	3.1	3.0	2.9	
Income balance	-5.0	-5.0	-5.2	-4.5	-4.8	-4.9	-4.9	-4.9	-4.9	
Current transfer balance	9.8	8.7	7.7	7.9	7.1	6.9	6.7	6.6	6.5	
Official grants	0.9	0.6	0.6	0.2	0.4	0.4	0.4	0.4	0.4	
Others, including private remittances	8.9	8.2	7.1	7.6	6.7	6.5	6.3	6.2	6.1	
Capital and financial account balance 1/	9.4	6.7	8.4	7.0	6.1	6.3	5.5	4.9	5.5	
Capital transfers balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Foreign direct investment balance	7.1	6.1	5.9	5.7	5.5	5.4	5.4	5.4	5.3	
Portfolio investment balance	-0.1	1.5	1.2	3.6	1.8	1.7	1.2	0.3	1.1	
Other investment balance	2.4	-0.8	1.3	-2.3	-1.2	-0.8	-1.2	-0.8	-0.9	
Public sector 1/ 2/	2.7	0.9	0.6	-1.9	0.0	0.2	-0.3	0.2	0.1	
Domestic banks	1.1	-0.9	0.9	0.1	-0.1	-0.1	-0.1	-0.2	-0.2	
Other private sector 3/	-1.3	-0.8	-0.3	-0.5	-1.2	-0.8	-0.7	-0.7	-0.8	
Errors and omissions	0.6	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance	3.2	2.0	6.6	2.4	2.8	2.8	1.4	0.8	1.2	
Financing	-3.2	-2.0	-6.6	-2.4	-2.8	-2.8	-1.4	-0.8	-1.2	
Gross international reserves (increase, -)	-4.8	-3.7	-7.4	-2.7	-4.0	-3.4	-1.4	-0.1	-1.1	
Financing Gap	1.7	1.7	0.8	0.3	1.2	0.7	0.0	-0.7	-0.1	
Use of Fund credit, net	1.7	0.9	0.2	0.0	0.0	0.0	-0.6	-0.7	-0.1	
Purchases	1.7	0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.7	-0.1	
Development partners	0.0	0.8	0.6	0.3	1.2	0.7	0.6	0.0	0.0	
		(Percent change, unless otherwise indicated)								
Memorandum items:										
Nominal growth of exports of goods	29.5	9.9	11.3	10.5	8.9	8.2	8.5	8.9	8.5	
Nominal growth of import of goods	35.8	4.2	-0.9	7.9	9.4	8.1	8.5	8.2	8.2	
Volume growth of exports of goods	4.2	6.8	6.9	6.9	5.3	5.8	6.4	6.7	6.3	
Volume growth of import of goods	5.5	4.1	0.4	4.6	4.0	6.0	6.5	6.6	6.5	
Trading partner import growth	9.3	2.9	0.7	3.7	4.3	4.0	3.9	3.5	3.3	
Export prices growth	18.3	2.9	4.2	3.3	3.5	2.2	2.0	2.1	2.1	
Import prices growth	23.0	0.1	-1.3	3.1	5.2	1.9	1.9	1.5	1.6	
Change in terms of trade	-3.8	2.8	5.6	0.2	-1.7	0.3	0.1	0.6	0.5	
Gross official reserves (in billions of euro)	19.4	22.0	24.6	24.0	27.5	30.3	31.5	31.7	32.8	
(In months of prospective imports of GNFS)	5.2	5.6	6.6	5.7	6.7	6.8	6.6	6.1	5.8	
(in percent of short-term debt)	399.0	451.6	504.6	493.2	565.6	623.0	648.1	650.5	673.2	
(in percent of broad money, M2)	54.2	53.9	60.2	54.0	61.9	63.1	61.1	57.4	55.9	
(in percent of risk-weighted metric) 4/	134.0	143.1	158.5	145.3	164.9	161.6	158.5	150.9	150.8	
GDP (billions of euros)	60.4	68.9	69.0	74.8	74.8	81.3	87.2	93.3	99.4	

Sources: NBS; and IMF staff estimates and projections.

1/ Excluding net use of IMF resources.

2/ Includes SDR allocations in 2021.

3/ Includes trade credits (net).

4/ The risk-weighted metric is the IMF's ARA metric for the fixed exchange rate. Serbia was reclassified as a de facto stabilized exchange rate regime in 2018.

Table 5a. External Financing Requirements and Sources (Baseline), 2022–28
(In billions of euros)

	2022	2023	2024	2025	2026	2027	2028
		Proj.					
Total financing requirement	11.6	11.5	11.6	9.6	9.7	10.7	9.1
Current account deficit	4.1	1.6	2.5	2.8	3.5	3.8	4.3
Debt amortization	4.5	4.7	6.2	4.0	4.9	6.8	3.7
Medium and long-term debt	3.8	3.1	4.5	2.3	3.3	5.1	2.0
Public sector	2.1	1.9	3.4	1.5	2.4	4.4	1.7
Of which: IMF	0.0	0.0	0.0	0.0	0.6	0.6	0.1
Of which: Eurobonds	0.0	0.0	0.1	0.2	0.0	2.1	0.1
Of which: Domestic bonds (non-residents)	1.1	0.9	0.3	0.3	0.3	0.3	0.3
Commercial banks	0.7	0.6	0.6	0.3	0.2	0.2	0.1
Corporate sector	1.0	0.6	0.5	0.5	0.6	0.4	0.2
Short-term debt	0.7	1.7	1.7	1.7	1.7	1.7	1.7
Commercial banks	0.6	1.5	1.5	1.5	1.5	1.5	1.5
Corporate sector	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Change in gross reserves (increase=+)	2.9	5.1	3.0	2.8	1.2	0.1	1.1
Total financing sources	10.6	10.9	10.7	9.1	9.7	10.7	9.1
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	4.3	4.1	4.1	4.4	4.7	5.0	5.3
Portfolio investment (net) 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt financing (excl. except. financing)	6.8	6.5	7.4	5.4	5.2	6.6	3.8
Medium and long-term debt	6.1	4.8	5.7	3.7	3.5	4.9	2.1
Public sector 2/	4.1	3.1	4.7	2.9	2.5	4.1	1.7
Of which: Eurobonds	0.9	1.6	1.5	1.5	1.0	2.2	1.0
Of which: Domestic bonds (non-residents)	0.5	0.2	0.2	0.2	0.3	0.3	0.4
Commercial banks	0.7	0.8	0.7	0.3	0.3	0.2	0.1
Corporate sector	1.3	0.8	0.3	0.5	0.7	0.5	0.2
Short-term debt	0.7	1.7	1.7	1.7	1.7	1.7	1.7
Other net capital inflows 3/	-0.6	0.3	-0.7	-0.7	-0.2	-0.8	0.1
o/w trade credit and currency and deposits	-1.0	0.0	-0.7	-0.8	-0.9	-1.0	-1.0
Total financing needs	1.0	0.6	0.9	0.5	0.0	0.0	0.0
Exceptional financing (net)	1.0	0.6	0.9	0.5	0.0	-0.6	-0.1
IMF	1.0	0.2	0.0	0.0	-0.6	-0.6	-0.1
Development partners, by debtor: 4/	0.0	0.4	0.9	0.5	0.5	0.0	0.0
General government	0.0	0.2	0.4	0.3	0.3	0.0	0.0
SOEs (from IFIs)	0.0	0.2	0.4	0.3	0.3	0.0	0.0
Memorandum items:							
Gross international reserves (without except. financing)	18.4	23.0	25.1	27.3	28.5	28.7	29.8
as % of ARA Metric	127.0	148.3	150.2	145.7	143.4	136.6	137.0
Gross international reserves (with except. financing)	19.4	24.6	27.5	30.3	31.5	31.7	32.8
as % of ARA Metric	134.0	158.5	164.9	161.6	158.5	150.9	150.8
Debt service	5.3	5.6	6.9	4.8	5.7	7.5	4.5
Interest	0.8	0.8	0.7	0.9	0.7	0.8	0.8
Amortization	4.5	4.7	6.2	4.0	4.9	6.8	3.7

Sources: NBS, and IMF staff estimates and projections.

1/ Only includes equity securities and financial derivatives.

2/ Excluding IMF.

3/ Includes all other net financial flows and errors and omissions.

4/ Exceptional financing is provided by the World Bank, AFD, KfW, EBRD and Cassa Depositi e Prestiti (see MEFP). Some loans are disbursed to the budget and are public debt, others are disbursed to SOEs in the energy sector and are publicly guaranteed debt.

Table 5b. Indicators of Capacity to Repay the Fund, 2022–28¹

	2022	2023	2024	2025	2026	2027	2028
		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund repurchases and charges 2/							
In millions of SDRs	4	74	118	150	578	824	311
In millions of euros	5	91	144	185	712	1,020	388
In percent of exports of goods and NFS	0.0	0.2	0.3	0.4	1.4	1.8	0.6
In percent of GDP	0.0	0.1	0.2	0.2	0.8	1.1	0.4
In percent of quota	0.6	11.3	18.0	23.0	88.3	125.9	47.5
In percent of total external debt service	0.1	1.6	2.1	3.8	12.5	13.5	8.6
In percent of gross international reserves	0.0	0.4	0.5	0.6	2.3	3.2	1.2
Fund credit outstanding (end-period)							
In millions of SDRs	786	1,266	1,899	1,899	1,465	753	237
In millions of euros	986	1,549	2,329	2,334	1,807	935	297
In percent of exports of goods and NFS	2.6	3.7	5.2	4.8	3.4	1.6	0.5
In percent of GDP	1.6	2.2	3.1	2.9	2.1	1.0	0.3
In percent of quota	120.0	193.3	290.0	290.0	223.8	115.0	36.2
In percent of total external debt	2.3	3.4	4.9	4.7	3.6	1.9	0.6
In percent of gross international reserves	5.1	6.3	8.5	7.7	5.7	3.0	0.9
Memorandum items: (In millions of euros, unless otherwise indicated)							
Exports of goods and NFS	38,000	41,616	45,066	48,719	52,625	57,061	61,733
Quota (in millions of SDRs)	654.8	654.8	654.8	654.8	654.8	654.8	654.8
GDP	60,424	69,003	74,822	81,286	87,199	93,275	99,402
Total external debt service	5,306	5,581	6,940	4,814	5,687	7,544	4,495
Public sector external debt	23,724	25,372	27,114	28,799	29,151	28,872	28,894
Total external debt	43,489	45,777	47,803	49,795	50,562	50,370	50,437
Total external debt stock excluding IMF	42,475	44,600	46,627	48,618	49,944	50,365	50,484
Gross international reserves	19,416	24,555	27,522	30,315	31,535	31,653	32,756

Source: IMF staff estimates.

1/ Assumes purchase of the full authorized access under the SBA arrangement including precautionary tranches.

2/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges.

Table 6a. General Government Fiscal Operations (Billions of RSD), 2022–28¹

	2022	2023		2024		2025	2026	2027	2028
		CR 23/243	Proj.	CR 23/243	Proj.				
Revenue	3,076	3,412	3,445	3,702	3,738	4,073	4,366	4,669	5,008
Taxes	2,760	3,005	3,044	3,311	3,333	3,618	3,881	4,156	4,463
Personal income tax	302	338	340	369	378	413	439	472	509
Social security contributions 2/	952	1,053	1,054	1,169	1,188	1,289	1,387	1,477	1,578
Taxes on profits	209	219	275	225	256	277	308	336	365
Value-added taxes	779	855	824	947	907	984	1,056	1,131	1,209
Excises	338	350	357	393	392	424	457	490	527
Taxes on international trade	79	83	83	95	89	96	103	111	121
Other taxes	100	107	111	114	123	134	131	139	153
Non-tax revenue	285	329	334	339	347	395	422	445	474
Capital revenue	16	17	17	19	19	20	22	24	25
Grants	16	60	49	33	38	40	41	44	47
Expenditure	3,292	3,640	3,676	3,881	3,930	4,215	4,519	4,835	5,189
Current expenditure	2,560	2,960	3,002	3,236	3,259	3,500	3,776	4,040	4,341
Wages and salaries 3/	684	783	785	872	876	956	1,027	1,100	1,179
Goods and services	680	724	752	731	772	836	915	981	1,053
Interest	107	146	154	180	183	172	182	189	216
Subsidies	160	259	222	238	209	226	243	261	279
Transfers	929	1,047	1,090	1,214	1,219	1,310	1,408	1,508	1,614
Pensions	638	777	775	925	906	970	1,042	1,113	1,185
Other transfers 4/	291	270	315	289	313	340	366	395	429
Capital expenditure	508	578	582	586	596	639	686	735	788
Net lending	206	76	68	30	47	47	23	24	26
Amortization of activated guarantees	18	26	24	28	29	30	34	36	34
Fiscal balance	-216	-228	-231	-178	-192	-143	-153	-166	-181
Financing	216	228	231	178	192	143	153	166	181
Privatization proceeds	0	0	0	0	0	0	0	0	0
Equity investment	0	0	0	0	0	0	0	0	0
Domestic	-370	-204	-170	48	-23	-59	100	200	79
External	586	252	240	107	207	194	103	37	114
Program	197	0	0	0	0	0	0	9	9
Project	139	175	168	175	162	156	168	180	192
Bonds and loans	222	187	183	297	409	176	117	259	119
IMF resources (net)	106	0	0	0	0	0	0	0	0
Amortization	-78	-111	-111	-365	-365	-138	-182	-410	-206
Financing gap	0	180	161	23	9	9	-50	-71	-12
IMF - SBA	0	144	144	0	0	0	-59	-71	-12
Development partners	0	36	17	23	9	9	9	0	0
Memorandum items:									
Gross wages and salaries	587	672	673	748	751	820	881	944	1,011
Arrears accumulation (domestic)	0	-1	-1	0	0	0	0	0	0
Quasi-fiscal support to SOEs (gross new issuance of guarantees)	47	9	9	5	5	5	5	5	5
Government deposits (stock)	422	490	382	476	389	399	257	73	24
Gross public debt 5/	3,945	4,484	4,334	4,682	4,564	4,733	4,729	4,800	4,964
Nominal GDP	7,098	8,109	8,104	8,784	8,774	9,526	10,238	10,969	11,756

Sources: Ministry of Finance; and IMF staff estimates and projections.

1/ Includes the republican budget, local governments, social security funds, and the Road Company, but excludes indirect budget beneficiaries (IBBs) that are reporting only on an annual basis.

2/ Includes employer contributions.

3/ Includes severance payments. Includes employer contributions.

4/ Excludes foreign currency deposit payments to households, reclassified below the line.

5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis. Includes restitution bonds.

Table 6b. General Government Fiscal Operation (Percent of GDP), 2022–28¹

	2022	2023		2024		2025	2026	2027	2028
		CR 23/243	Proj.	CR 23/243	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	43.3	42.1	42.5	42.1	42.6	42.8	42.6	42.6	42.6
Taxes	38.9	37.1	37.6	37.7	38.0	38.0	37.9	37.9	38.0
Personal income tax	4.3	4.2	4.2	4.2	4.3	4.3	4.3	4.3	4.3
Social security contributions 2/	13.4	13.0	13.0	13.3	13.5	13.5	13.5	13.5	13.4
Taxes on profits	2.9	2.7	3.4	2.6	2.9	2.9	3.0	3.1	3.1
Value-added taxes	11.0	10.5	10.2	10.8	10.3	10.3	10.3	10.3	10.3
Excises	4.8	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.5
Taxes on international trade	1.1	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.0
Other taxes	1.4	1.3	1.4	1.3	1.4	1.4	1.3	1.3	1.3
Non-tax revenue	4.0	4.1	4.1	3.9	4.0	4.1	4.1	4.1	4.0
Capital revenue	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.2	0.7	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Expenditure	46.4	44.9	45.4	44.2	44.8	44.3	44.1	44.1	44.1
Current expenditure	36.1	36.5	37.0	36.8	37.1	36.7	36.9	36.8	36.9
Wages and salaries 3/	9.6	9.7	9.7	9.9	10.0	10.0	10.0	10.0	10.0
Goods and services	9.6	8.9	9.3	8.3	8.8	8.8	8.9	8.9	9.0
Interest	1.5	1.8	1.9	2.0	2.1	1.8	1.8	1.7	1.8
Subsidies	2.3	3.2	2.7	2.7	2.4	2.4	2.4	2.4	2.4
Transfers	13.1	12.9	13.5	13.8	13.9	13.7	13.8	13.7	13.7
Pensions	9.0	9.6	9.6	10.5	10.3	10.2	10.2	10.1	10.1
Other transfers 4/	4.1	3.3	3.9	3.3	3.6	3.6	3.6	3.6	3.6
Capital expenditure	7.2	7.1	7.2	6.7	6.8	6.7	6.7	6.7	6.7
Net lending	2.9	0.9	0.8	0.3	0.5	0.5	0.2	0.2	0.2
Amortization of activated guarantees	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Fiscal balance	-3.0	-2.8	-2.8	-2.0	-2.2	-1.5	-1.5	-1.5	-1.5
Financing	3.0	2.8	2.8	2.0	2.2	1.5	1.5	1.5	1.5
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-5.2	-2.5	-2.1	0.5	-0.3	-0.6	1.0	1.8	0.7
External	8.3	3.1	3.0	1.2	2.4	2.0	1.0	0.3	1.0
Program	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Project	2.0	2.2	2.1	2.0	1.8	1.6	1.6	1.6	1.6
Bonds and loans	3.1	2.3	2.3	3.4	4.7	1.8	1.1	2.4	1.0
IMF resources (net)	1.5	0	0.0	0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.1	-1.4	-1.4	-4.2	-4.2	-1.5	-1.8	-3.7	-1.7
Financing gap	0.0	2.2	2.0	0.3	0.1	0.1	-0.5	-0.6	-0.1
IMF - SBA	0.0	1.8	1.8	0.0	0.0	0.0	-0.6	-0.6	-0.1
Development partners	0.0	0.4	0.2	0.3	0.1	0.1	0.1	0.0	0.0
Memorandum items:									
Gross wages and salaries	8.3	8.3	8.3	8.5	8.6	8.6	8.6	8.6	8.6
Arrears accumulation (domestic)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quasi-fiscal support to SOEs (gross new issuance guarantees)	0.7	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Government deposits (stock)	5.9	6.0	4.7	5.4	4.4	4.2	2.5	0.7	0.2
Gross public debt 5/	55.6	55.3	53.5	53.3	52.0	49.7	46.2	43.8	42.2
Nominal GDP (billions of RSD)	7,098	8,109	8,104	8,784	8,774	9,526	10,238	10,969	11,756

Sources: Ministry of Finance; and IMF staff estimates and projections.

1/ Includes the republican budget, local governments, social security funds, and the Road Company, but excludes indirect budget beneficiaries (IBBs) that are reporting only on an annual basis.

2/ Includes employer contributions.

3/ Includes severance payments. Includes employer contributions.

4/ Excludes foreign currency deposit payments to households, reclassified below the line.

5/ Excludes state guarantees on bank loans under the credit guarantee scheme introduced in response to the COVID-19 crisis. Includes restitution bonds.

Table 7. Decomposition of Public Debt and Debt Service by Creditor, 2022–28¹
(Central government, in billions of euros)

	Debt Stock (end of period)		Actual	Expected Debt Service					
	2022	July 2023	2022	2023	2024	2025	2026	2027	2028
Total	33.3	35.1	3.2	4.6	4.9	3.5	3.5	4.0	4.2
External	21.6	24.6	1.1	1.2	3.3	1.4	1.8	3.7	2.7
Multilateral creditors ²	6.5	7.7	0.6	0.6	0.7	0.5	1.1	1.0	0.5
IMF	1.3	2.4							
World Bank	0.0	0.0							
ADB/AfDB/IADB	0.0	0.0							
Other Multilaterals	5.3	5.3							
o/w: IBRD	2.2	2.2							
EIB	1.9	1.8							
Others (IDA, EU, CEB, EBRD, EUROFIMA, KfW)	1.2	1.3							
Bilateral Creditors	6.4	6.2	0.5	0.6	2.5	0.5	0.5	0.5	0.3
Paris Club	0.6	0.5	0.1	0.2	0.1	0.0	0.0	0.1	0.0
o/w: PC Germany KfW	0.0	0.0							
PC United Kingdom	0.0	0.0							
Non-Paris Club	5.8	5.7	0.4	0.4	2.4	0.5	0.5	0.3	0.3
o/w: UAE	2.5	2.4							
China	2.2	2.4							
Russia	0.8	0.7							
Others	0.2	0.2							
Bonds	7.3	8.9	0.0	0.0	0.0	0.2	0.0	2.0	1.7
Commercial creditors	0.8	1.2	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Other international creditors	0.5	0.5							
o/w: JICA	0.1	0.1							
Domestic	11.8	10.5	2.1	3.4	1.6	2.1	1.7	0.3	1.5
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	10.5	9.0	2.0	3.2	1.4	1.9	1.5	0.1	1.4
Loans and other domestic debt	1.3	1.5	0.1	0.2	0.2	0.2	0.2	0.2	0.1
Memo items:									
Collateralized debt ³	0.0	0.0							
o/w: Related	0.0	0.0							
o/w: Unrelated	0.0	0.0							
Contingent liabilities	1.5	1.9							
o/w: Public guarantees	1.5	1.9							
o/w: Other explicit contingent liabilities ⁴	0.0	0.0							

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage corresponds to central government.

2/Multilateral creditors² are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/Includes other one-off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Source: Serbia Public Debt Management Agency

Table 8. Monetary Survey, 2022–28¹

	2022	2023		2024		2025	2026	2027	2028
		CR 23/243	Proj.	CR 23/243	Proj.	Proj.	Proj.	Proj.	Proj.
		(Billions of RSD, unless otherwise indicated; end of period) 1/							
Net foreign assets 2/	1,853	2,346	2,566	2,574	2,911	3,271	3,434	3,495	3,685
<i>In billions of euro</i>	15.8	19.9	21.8	22.0	24.9	27.9	29.3	29.7	31.0
Foreign assets	2,692	3,035	3,326	3,272	3,674	4,041	4,207	4,270	4,467
NBS	2,291	2,588	2,897	2,807	3,229	3,570	3,712	3,739	3,899
Commercial banks	401	447	429	465	445	471	495	531	567
Foreign liabilities (-)	-838	-689	-760	-698	-763	-770	-772	-774	-782
NBS	-116	-3	-3	-3	-3	-3	-3	0	0
Commercial banks	-722	-686	-757	-695	-760	-767	-769	-774	-782
Net domestic assets	2,117	2,078	1,728	2,236	1,603	1,500	1,509	1,634	1,656
Domestic credit	3,348	3,375	3,316	3,822	3,560	3,671	3,827	4,294	4,758
Government, net	172	58	97	188	226	174	207	416	592
NBS	-476	-529	-457	-482	-385	-403	-350	-164	-8
Claims on government	101	80	80	56	56	59	62	65	68
Liabilities (deposits)	577	609	538	539	442	462	412	229	77
Banks	648	587	554	670	611	577	558	580	600
Claims on government	729	668	636	765	706	669	639	661	695
Liabilities (deposits)	81	81	81	95	95	92	81	81	95
Non-government sector	3,218	3,358	3,260	3,676	3,375	3,539	3,661	3,919	4,208
Households	1,458	1,518	1,473	1,660	1,523	1,595	1,647	1,761	1,888
Enterprises	1,715	1,793	1,741	1,965	1,805	1,894	1,962	2,103	2,261
Other assets, net	-1,231	-1,297	-1,587	-1,586	-1,956	-2,171	-2,318	-2,659	-3,103
Capital accounts (-)	-1,094	-1,146	-1,437	-1,379	-1,735	-1,907	-2,003	-2,283	-2,671
Broad money (M2)	3,971	4,424	4,294	4,810	4,514	4,771	4,944	5,130	5,341
Currency in circulation	311	347	355	376	375	397	427	457	490
Demand deposits	1,080	1,204	1,233	1,304	1,302	1,379	1,482	1,588	1,702
Time and saving deposits	423	471	484	510	511	542	582	624	669
Foreign currency deposits	2,158	2,402	2,221	2,620	2,326	2,453	2,453	2,461	2,481
<i>In billions of euro</i>	18.4	20.4	18.9	22.4	19.9	20.9	20.9	20.9	20.9
		(Year-on-year percent change, unless otherwise indicated)							
Memorandum items									
M2	6.9	11.3	8.1	8.7	5.1	5.7	3.6	3.8	4.1
Velocity (M2)	1.8	1.8	1.9	1.8	1.9	2.0	2.1	2.1	2.2
Deposits at constant exchange rate	7.2	11.1	7.4	9.2	5.4	5.4	3.3	3.2	3.4
Credit to non-gov. (current exchange rate)	10.0	3.8	1.7	6.3	2.6	3.9	4.3	4.9	5.2
Credit to non-gov. (constant exchange rates) 3/	10.2	4.9	1.6	8.2	3.0	3.5	4.4	4.6	4.6
Domestic	7.4	5.9	1.1	11.6	3.9	4.5	3.5	6.8	6.9
Households	6.2	4.1	1.0	9.7	3.6	4.5	3.3	6.7	6.8
Enterprises and other sectors	8.4	6.1	1.2	11.8	4.1	4.6	3.6	6.9	6.9
External	0.0	2.5	2.3	1.0	1.4	1.7	6.0	0.7	0.3
Credit to non-gov. (real terms) 4/	-4.5	-4.1	-5.8	2.2	-1.4	0.4	1.1	1.9	2.2
Domestic credit to non-gov. (real terms)	-6.9	-3.6	-6.2	5.3	-0.5	1.3	0.3	3.9	4.2
Households	-7.9	-3.8	-6.4	5.1	-0.6	1.1	0.1	3.8	4.1
Enterprises and other sectors	-6.0	-3.4	-6.1	5.4	-0.3	1.4	0.4	4.1	4.4
External	0.0	-5.1	-5.0	-3.6	-3.0	-1.3	2.7	-1.9	-1.8
Deposit euroization (percent of total) 5/	59.0	58.9	56.4	59.1	56.2	56.1	54.3	52.7	51.1
Credit euroization (percent of total) 5/	64.2	62.2	64.2	61.2	63.2	61.7	60.7	60.2	60.2

Sources: NBS; and IMF staff estimates and projections.

1/ Foreign exchange denominated items are converted at current exchange rates.

2/ Excluding undivided assets and liabilities of the FSRY and liabilities to banks in liquidation.

3/ Using constant program RSD/euro exchange rates for converting FX and FX-indexed loans to RSD.

4/ Calculated as nominal credit at current exchange rates deflated by the change in the 12-month CPI index.

5/ Using current exchange rates.

Table 9. NBS Balance Sheet, 2022–28¹

	2022	2023		2024		2025	2026	2027	2028
		CR 23/243	Proj.	CR 23/243	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of RSD, unless otherwise indicated; end of period) 1/								
Net foreign assets	2,175	2,584	2,894	2,804	3,226	3,567	3,709	3,736	3,896
<i>In billions of euro</i>	18.5	21.9	24.6	24.0	27.6	30.4	31.6	31.7	32.8
Gross foreign reserves	2,291	2,588	2,897	2,807	3,229	3,570	3,712	3,739	3,899
Net domestic assets	-964	-1,391	-1,709	-1,471	-1,941	-2,247	-2,278	-2,230	-2,307
Net domestic credit	-562	-1,041	-1,359	-1,366	-1,836	-2,247	-2,278	-2,230	-2,307
Net credit to government	-476	-529	-457	-482	-385	-403	-350	-164	-8
Claims on government	101	80	80	56	56	59	62	65	68
Liabilities to government (-)	-577	-609	-538	-539	-442	-462	-412	-229	-77
Reserve money	1,211	1,194	1,185	1,332	1,284	1,320	1,431	1,506	1,589
Currency in circulation	311	347	355	376	375	397	427	457	490
Commercial bank reserves	548	462	474	537	537	530	611	655	702
Required reserves	273	296	274	323	287	302	302	303	306
Excess reserves	276	166	200	214	250	228	309	352	396

Sources: NBS; and IMF staff estimates and projections.

1/ Foreign exchange denominated items are converted at current exchange rates.

Table 10. Banking Sector Financial Soundness Indicators, 2020–23

	2020	2021				2022				2023		
		Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Capital adequacy												
Regulatory capital to risk-weighted assets	22.4	22.3	22.2	21.7	20.8	20.0	19.4	19.5	20.2	20.5	22.3	22.2
Regulatory Tier 1 capital to risk-weighted assets	21.6	21.4	21.1	20.6	19.7	18.9	18.2	18.2	18.8	19.2	20.6	20.5
Nonperforming loans net of provisions to regulatory capital	6.7	7.0	6.9	6.7	7.6	7.7	7.5	7.4	6.5	6.4	6.3	6.2
Regulatory Tier 1 capital to assets	13.1	13.0	12.6	12.3	11.8	11.6	11.4	11.0	11.0	10.9	11.7	11.5
Large exposures to capital	73.8	80.0	82.4	80.1	86.0	98.9	104.7	109.3	86.7	87.0	70.0	71.2
Regulatory capital to assets	13.6	13.5	13.3	12.9	12.4	12.2	12.2	11.8	11.7	11.7	12.7	12.4
Asset quality												
Nonperforming loans to total gross loans	3.7	3.9	3.6	3.6	3.6	3.4	3.3	3.2	3.0	3.0	3.2	3.2
Sectoral distribution of loans (percent of total loans)												
Deposit takers	0.3	0.4	0.4	0.1	0.0	0.2	0.8	0.8	0.7	0.8	0.4	0.3
Central bank	1.1	1.1	1.1	1.5	1.5	0.4	0.2	1.4	3.3	8.4	10.1	11.7
General government	1.6	1.5	1.4	1.5	1.7	1.7	1.9	1.8	2.2	2.2	2.2	2.3
Other financial corporations	0.8	0.7	0.7	0.5	0.6	0.6	1.0	0.9	1.1	1.0	1.0	0.9
Nonfinancial corporations	49.6	49.1	48.6	49.0	49.3	50.2	49.8	48.8	47.6	44.4	43.4	42.5
Agriculture	3.3	3.1	3.0	3.2	3.0	2.8	2.6	2.8	2.8	2.5	2.4	2.3
Industry	15.0	14.7	14.5	14.9	15.5	19.5	19.3	19.1	18.4	17.2	16.6	16.2
Construction	5.1	5.0	4.9	4.8	4.9	4.9	4.6	4.2	4.1	3.8	4.0	3.8
Trade	13.3	13.2	13.1	12.8	12.5	10.9	11.1	11.0	10.7	10.1	9.9	9.5
Other loans to nonfinancial corporations	13.0	13.1	13.1	13.2	13.4	12.3	12.1	11.6	11.7	10.7	10.6	10.6
Households and NPISH	45.0	45.0	45.6	45.6	45.0	44.7	44.2	43.2	43.2	40.5	40.1	38.9
Households and NPISH of which: mortgage loans to total loans	16.4	16.7	17.1	17.4	17.4	17.5	17.3	17.1	17.4	16.3	16.1	15.5
Foreign sector	1.6	2.3	2.2	1.8	1.9	2.0	2.1	3.1	2.0	2.8	2.7	3.4
IFRS provision for NPLs to gross NPLs	59.0	58.8	58.2	59.3	56.3	56.3	57.0	57.1	58.1	58.4	57.9	58.7
IFRS provision of total loans to total gross loans	3.5	3.5	3.3	3.4	3.2	3.1	3.0	3.0	3.1	3.1	3.2	3.2
Earnings and Profitability												
Return on assets	1.1	1.2	1.2	1.2	1.2	1.4	1.5	1.5	1.9	2.6	2.6	2.6
Return on equity	6.5	7.3	6.9	7.9	7.8	10.0	10.5	10.9	13.9	19.7	19.3	19.3
Liquidity												
Customer deposits to total (noninterbank) loans	116.4	117.8	118.1	118.0	119.5	113.1	110.8	114.4	120.5	123.2	123.6	127.0
Foreign-currency-denominated loans to total loans	64.7	64.1	63.2	62.8	63.2	64.5	65.7	66.6	65.5	62.6	61.4	60.5
Average monthly liquidity ratio	2.2	2.3	2.3	2.3	2.1	2.0	1.9	2.0	2.2	2.4	2.4	2.5
Average monthly narrow liquidity ratio	1.9	2.0	1.9	1.9	1.7	1.7	1.6	1.6	1.7	1.7	1.7	1.7
Sensitivity to Market Risk												
Net open position in foreign exchange to regulatory capital	0.2	0.5	0.9	1.1	0.4	1.5	1.7	0.4	1.5	1.3	0.3	0.5
Foreign-currency-denominated liabilities to total liabilities	62.3	62.8	61.4	60.7	61.4	62.7	64.5	63.7	62.1	61.3	60.4	59.5
Classified off-balance sheet items to classified balance sheet assets	36.3	35.2	35.8	37.1	39.1	37.9	37.7	37.7	39.6	39.8	40.9	43.2

Source: NBS.

Table 11. Schedule of Reviews and Available Credit Under the 2-year SBA Arrangement, 2022–24

Availability Date	Condition	Original Purchase Intention	Access (Additional)			Credit Available (Cumulative)			Status
			SDRs (Mill)	Quota 1/ (Percent)	EURs 2/ (Mill)	SDRs (Mill)	Quota 1/ (Percent)	EURs 2/ (Mill)	
December 19, 2022	Approval of the SBA Arrangement	Purchase	785.76	120.00	992.6	785.76	120.00	992.6	Purchased
June 1, 2023	Observance of end-Dec 2022 PCs, continuous PCs, and completion of First Review	Purchase	163.70	25.00	206.8	949.46	145.00	1,199.4	Purchased
December 19, 2023	Observance of end-June 2023 PCs, continuous PCs, and completion of Second Review	Purchase	316.53	48.34	399.9	1,265.99	193.34	1,599.3	Precautionary
June 3, 2024	Observance of end-Dec 2023 PCs, continuous PCs, and completion of Third Review	Precautionary	316.46	48.33	399.8	1,582.45	241.67	1,999.1	
December 2, 2024	Observance of end-June 2024 PCs, continuous PCs, and completion of Fourth Review	Precautionary	316.47	48.33	399.8	1,898.92	290.00	2,398.9	

Source: IMF staff

1/ Quota is SDR 654.8 million

2/ Indicative, at SDR/ EUR exchange rate of 11/16/2022: 0.791589

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Global conjunctural risks				
Intensification of regional conflict(s).	High Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	Short to medium term	High Adverse spillovers and commodity price shocks would reduce trade, lower investor confidence and stall FDI, while giving rise to inflationary pressures, and demands for fiscal support programs and a weaker fiscal position. Serbia's current preferential economic relations with the EU (Serbia is a candidate country) could be downgraded which would reduce trade, lower investor confidence and stall FDI. Medium Supply of contracted gas volumes to Serbia could be curtailed in transit implying energy security risks. Higher costs of gas imports because of additional transit fees on Russian gas could increase costs and create fiscal risks.	<ul style="list-style-type: none"> • Further monetary tightening if there are strong signs of second-round inflation effects. • Intensify efforts to secure alternative energy sources and, in extremis, allocate supplies in accordance with a national rationing plan. • Allow automatic stabilizers to operate. • Targeted support to vulnerable households. • Adjust energy tariffs further to help offset changes in costs.
Commodity price volatility.	High A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes	Short to medium term	High Cost push inflation resumes, leading to decline in real income. Sharp increases in energy prices	<ul style="list-style-type: none"> • Adjust energy tariffs further to help offset changes in costs.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
	recurrent commodity price volatility (...)		could make some businesses unviable. Inflation expectations could worsen and lead to a wage-price spiral. Medium (positive) Near-shoring to Serbia could intensify.	<ul style="list-style-type: none"> • Further monetary tightening if there are strong signs of second-round inflation effects. • Targeted support to vulnerable households. • Accelerate efforts to secure energy diversification.
Abrupt global slowdown or recession.	<p>Medium</p> <p>Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation causing sudden stops in EMDEs.</p> <ul style="list-style-type: none"> • U.S.: (...) inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in (...) a “hard landing”. Medium • Europe: Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns (...). Medium • China: (...) disrupt economic activity. Medium 	Short to medium term	<p>High</p> <p>Sharp growth slowdown, and weaker fiscal and external position.</p> <p>Serbia may also face near-term challenges in accessing the Eurobond market, but with fairly closed capital markets and a high share of FDI, the scope for capital outflows from non-residents appears limited in the near term.</p>	<ul style="list-style-type: none"> • Tightening in the event of aggregate supply shocks if there are signs of second-round inflation effects. • Allow automatic stabilizers to operate. • Targeted support to vulnerable households. • Purchase under the precautionary tranches of the SBA.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Monetary policy miscalibration.	Medium Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen monetary policy stance prematurely de-anchoring inflation expectations, triggering a wage price spiral and spillovers to financial markets	Short to medium term	High Global inflation stays higher for longer, increasing imported inflation in Serbia, worsening inflation expectations. Risk premia for Serbia could increase along with premia for other EMDEs. Medium (positive) Search for yield could incentivize investment in Serbia, while the fairly closed capital market makes it difficult for hot money.	<ul style="list-style-type: none"> • Further monetary tightening if there are signs of second-round inflation effects.
Systemic financial instability.	Medium Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies (...), market dislocations and adverse cross-border spillovers.	Short to medium term	Medium Parent banks may become more risk averse in their Serbian operations.	<ul style="list-style-type: none"> • Further strengthen already robust and vigilant banking supervision. • Intensify surveillance of developments in home economies of parent banks. • Maintain a stable and predictable regulatory regime to retain confidence in the Serbian economy.
Sovereign debt distress	Medium Domino effects of higher global interest rates, a growth slowdown in AEs, and/or disorderly debt events in some EMDEs spillover to other highly		Medium Serbia's access to the Eurobond market would likely be curtailed similar to other EMDEs, but with fairly closed capital markets and a	<ul style="list-style-type: none"> • Obtain financing from bilateral creditors, as in the past. • Access the precautionary tranches of the SBA.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
	indebted countries, resulting in capital outflows, an increase in risk premia, and loss of market access.		high share of FDI, the scope for capital outflows from non-residents appears limited in the near term.	
Global Structural Risks				
Deepening geo-economic fragmentation.	High Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	Short to medium term	High Similar impact as described in conjunctural risks, but deeper and longer-lasting. Medium (positive) Serbia may benefit from near-shoring, and inward migration or relocation of businesses.	<ul style="list-style-type: none"> Take measures to ensure a globally diversified economic structure for imports, exports and financing. Enhance efforts to ensure a business-friendly environment while continuing to combat the grey economy. Prioritize reforms that support a reputation for evenhandedness in a market and rules-based economy.
Cyberthreats.	Medium Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability	Short to medium term	Medium While digitalization of the economy and government operations is progressing, it is not yet at the stage where the impact of cyberattacks would appear to have a generalized macro-critical impact.	<ul style="list-style-type: none"> Implement high standards of IT security for government and public IT infrastructure, taking advantage of expertise in the local IT sector. Develop a cyberattack emergency response capacity.
Extreme climate events.	Medium	Medium term	Medium	<ul style="list-style-type: none"> Strengthen disaster preparedness, including

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
	Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.		Serbia is exposed to some climate risks including droughts (adversely impacting food supply and electricity generation), landslides, waterlogging (adversely affecting coal production and electricity generation), and earthquakes.	contingency reserves in the budget. <ul style="list-style-type: none"> Build further capacity for fiscal risk management, and link the insights into government planning and budgeting.
Disorderly energy transition.	Medium Disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Medium term	Medium Domestic coal production and hydroelectric capacity, combined with current reforms (see below) provides some resilience in the energy sector.	<ul style="list-style-type: none"> Adhere to a well-specified national energy and climate strategy (expected in 2023) and communicate any changes transparently and with appropriate lead times.
Domestic Risks				
Domestic policy errors or loss of fiscal discipline	Low Structural reform delays or looser fiscal policies. Medium Selective price and interest rate controls that impede contractual freedoms and create planning uncertainty.	Short to medium term	High Loss of fiscal discipline and perceived regulatory instability would undermine market confidence. Structural reform delays would undercut growth prospects.	<ul style="list-style-type: none"> Take corrective action to restore fiscal discipline and adhere to new fiscal rule. Re-establish a prioritized set of structural reform with well-defined action plans with front-loading of corrective actions. Rapidly phase out all price and interest rate controls.
Energy sector reform delays.	Medium Electricity production remains unreliable, and coal and electricity imports remain elevated. Political	Short to medium term	High Financial viability of the energy companies is not restored, and fiscal costs and risks persist.	<ul style="list-style-type: none"> Take corrective actions in the spirit of the reforms currently underway and envisioned.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
	pressure and continued weak governance of SOEs delay efficiency enhancements, and diversification of energy sources and energy providers, and the green transformation.		Energy security, availability of green energy, and environmental sustainability remain at risk over the medium term, eventually increasing costs and deterring FDI.	<ul style="list-style-type: none"> • Further adjust energy tariffs to restore full cost recovery. • Further strengthen management of key energy SOEs, inter alia, by insulating companies from political interference. • Reach consensus on an energy sector strategy with well-defined roles for the government, SOEs and private sector, and implement it.

Annex II. The Monetary Transmission Mechanism in Serbia

High euroization, a low credit-to-GDP ratio, and the *de facto* stabilized exchange rate all have the potential to weaken the monetary transmission mechanism in Serbia. This Annex explores these factors and estimates the impact of monetary policy shocks on inflation.

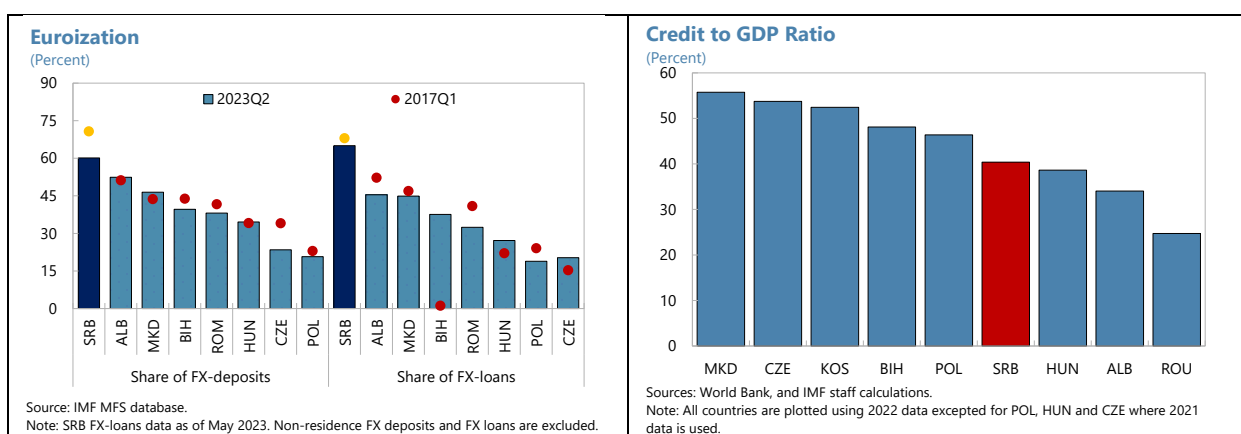
1. Serbia's financial system is highly euroized. As of 2023Q2, around 67 percent of loans were euro-denominated, and 58 percent of deposits. The "interest rate transmission" channel is limited by euroization, as the NBS policy rate only influences dinar-denominated financial instruments.

2. The financial system is small relative to GDP. Credit makes up only 40 percent of GDP in Serbia. Although similar to peers, this is well below credit depth in advanced economies. This means that credit developments, driven by monetary policy, will have a relatively small impact on economic activity. Nevertheless, the sensitivity of interest rates on *dinar*-denominated loans and deposits to changes in the policy rate is higher in Serbia than many other countries, which strengthens the transmission mechanism.

Table 1. Elasticities of Retail Rates to Policy Rate Changes

	Serbia	Albania	N. Macedonia	Hungary	Poland	Romania	Czech Rep	Euro area
First month of tightening	Apr-2022	Mar-2022	Apr-2022	Jun-2021	Oct-2021	Oct-2021	Jun-2021	Jul-2022
Accumulated Δ policy rate (percentage points)	5.25	2.50	4.75	12.40	6.65	5.75	6.75	4.00
Months of tightening up to Jun-2023	15	16	15	25	21	21	23	12
Implicit elasticity								
Retail lending rates	0.88	0.05	0.30	1.15	0.99	0.72	0.70	0.51
Retail deposit rates	0.76	0.32	0.47	1.12	0.80	0.83	0.62	0.29

Note: Elasticities estimated as Δ interest rate over Δ monetary policy rate.
Source: IMF staff estimates.

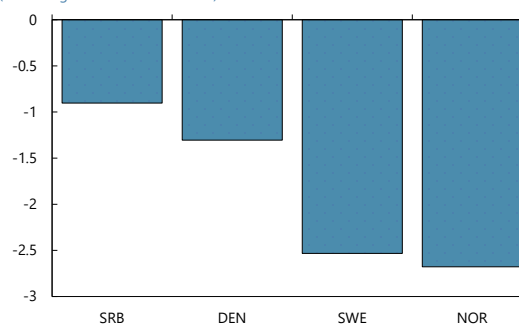


3. The de facto stabilized exchange rate also blunts the important exchange rate channel of monetary policy. When operational, this channel can be especially important for small open economies such as Serbia.

4. These factors mean that the transmission mechanism in Serbia is weaker than similarly sized advanced economies. To quantify the impact of monetary policy, a structural VAR model is used to identify monetary policy shocks and measure the impact on inflation for Serbia and three advanced European countries, Denmark, Norway and Sweden.¹

The impact of monetary policy on inflation is estimated to be much smaller than in Sweden and Norway, both of which have a flexible exchange rate; and only moderately weaker than in Denmark, which also does not have a flexible exchange rate.

The Impact of a 100bps Monetary Policy Shock on Inflation
(Percentage deviation from trend)



Sources: Haver Analytics and IMF staff calculations.

¹ The SVAR model includes four variables, the real GDP, the CPI, the policy rate and the effective exchange rate. Sign restrictions are used to identify three shocks, the aggregate demand shock, the aggregate supply shock and the monetary policy shock.

Annex III. Public Sector Compensation

This box examines the competitiveness of public sector salaries in Serbia, given anecdotal evidence of staffing difficulties for key skilled workers. Evidence from household survey data suggests there is no generalized public sector wage premium, in contrast to most emerging markets, while there may be a wage discount for higher skilled workers, which could help explain hiring difficulties.

1. **Since 2014, Serbia has undertaken a wage bill consolidation, administered mainly through pay reductions.** As a result, the overall wage bill declined by over 2 percent of GDP to around 10 percent in 2022, close to EME and OECD averages. The decline was secured mainly through nominal pay cuts, while the headcount stabilized at high levels (despite a 2014–20 hiring freeze, as the freeze reportedly had many de facto exceptions) and remains above peer averages at 16 percent of the working age population.
2. **Although overall public sector headcount is high in Serbia, hiring shortages have emerged in some sectors.** Anecdotal evidence suggests there are current challenges in the recruitment and retention of high-skilled staff in key areas of the public sector, such as tax administration, IT experts and engineers.
3. **A simple comparison of public and private sector salaries suggests some differences but that these disappear at higher salary levels.** Kernel density estimations based on the 2021 Household Budget Survey show that a larger portion of public sector workers earn over RSD 60,000 than workers in the private sector (Figure 1). However, above about RSD 100,000, the distributions appear comparable between public sector workers and others.
4. **Staff analysis suggest that there is no evidence of a generalized pay premium in the public sector, while public sector pay appears uncompetitive at higher levels** (Figure 2). While an unconditional regression indicates pay in the public sector is 15 percent higher than the private sector on average, the estimated wage premium (controlling for education and occupation) falls to just 3 percent and loses statistical significance. Moreover, results from quantile regressions suggest there is only a statistically significant public wage premium for salaries below the median. In addition, estimation of separate Mincer regressions by highest level of education achieved indicate there is a negative public wage premium (i.e., a discount) for university educated workers with salaries above the median.
5. **To ensure effective delivery of public services, a targeted review of public sector hiring and compensation may be needed, targeted on specific worker groups in key sectors.** Possible reforms on compensation could include salary grid adjustment for specific occupations or grades.

Figure 1. Serbia: Kernel Density Estimation of Public and Private Sector Wages

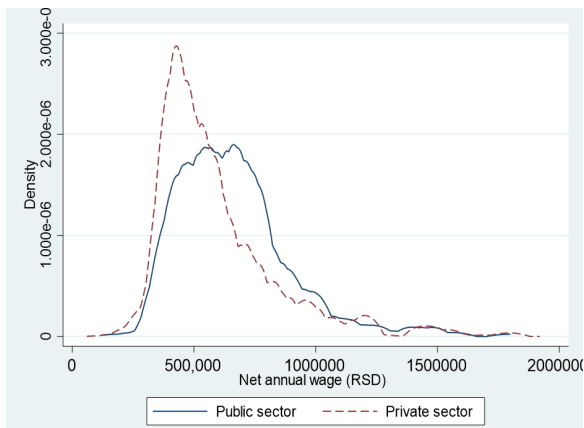
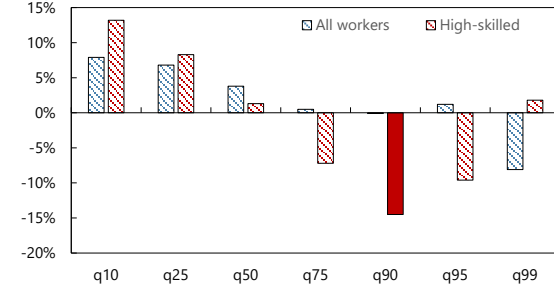


Figure 2. Serbia: Public Wage Premium/Discount at Quantiles of the Wage Distribution

Serbia: Public Wage Premium/Discount at Quantiles of the Wage Distribution



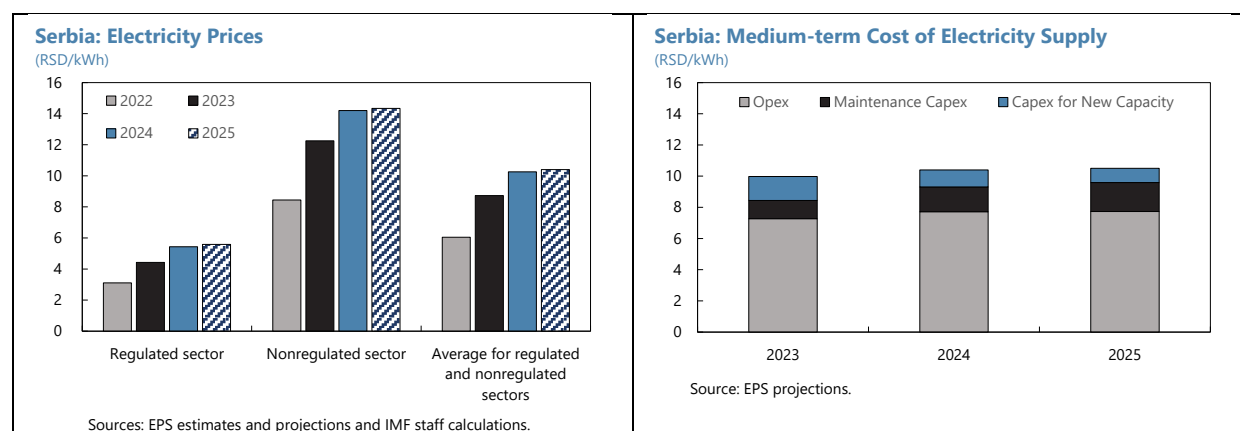
Source: IMF staff calculations.
 Note: Solid shading denotes statistical significance at the 1 percent level. Results based on quantile regressions using the 2021 Household Budget Survey. High-skilled corresponds to education levels above Secondary. Total number of observations was 4,208 (high-skilled 828).

Annex IV. Serbia Energy Tariffs

Higher electricity tariffs under the SBA program have helped achieve medium-term cost recovery of the state-owned electricity company, EPS. Gas company Srbijagas's finances have also improved although full medium-term cost recovery is not yet assured. Going forward, it is important to ensure sustainability of the electricity and gas pricing systems, and to make further adjustments to tariffs if needed, especially if risks of higher gas transit costs materialize.

Electricity Tariffs

1. Following successive tariff increases in 2022–23, the average electricity supply price received by the EPS appears to match medium-term electricity production costs. Including the latest 8 percent electricity price increase in November 2023, the average electricity price¹ paid by the regulated (mostly households) and non-regulated (corporates and municipalities) sectors in Serbia is estimated at €103/MWh. This price level appears in line with the average medium-term electricity supply costs, currently estimated at about €104/MWh, which include operational costs, required maintenance and investment in new capacity. This said, EPS' electricity supply costs will inevitably change over time which will in turn need to be reflected in average electricity tariffs to ensure EPS financial solvency and Serbia's energy security.



2. The focus has now shifted to ensuring sustainability of Serbia's entire electricity pricing system. This requires analyzing and potentially revising various elements of the existing pricing system, covering non-regulated and regulated segments.

- For the non-regulated segment, the EPS should revise its pricing methodologies to allow for the removal of the cap for electricity prices for the non-regulated sector in an orderly manner (new end-August 2024 SB). The cap on electricity supply prices was introduced only in 2021 as a response to the quickly unfolding energy crisis, but a new pricing methodology is needed. Now that EPS' production has stabilized and regional electricity prices have moderated, removing the cap would: (i) reestablish a market-based pricing approach, allowing EPS to better engage in

¹ Excluding network fees, taxes, and other charges.

market risk management; (ii) support competition in Serbia's electricity production and supply sector; and (iii) promote energy efficiency, which is fundamental to the energy transition. The revision in pricing methodologies should aim to deliver a more sustainable pricing system for the non-regulated sector, that is built around market-based principles while possibly containing elements that provide protections against excessive price moves.

- A sustainable electricity pricing system should also contain risks associated with cross subsidization between the non-regulated and regulated sectors. Currently, electricity supply prices for the non-regulated segment significantly exceed EPS production costs. In contrast, prices for the regulated segment (mostly households) are well below these costs.² While such a pricing strategy helps with energy affordability for Serbia's population, it also leaves EPS exposed to major market price declines that would decrease its capacity to cross-subsidize households. Assessing and containing such risks needs to be undertaken in the context of a holistic analysis of the electricity supply pricing system. Developing a new bylaw on public service obligations for SOE's noncommercial goals underpinning the new SOE governance law (new end-September 2024 SB) is also important.
- It would also be important to assess the adequacy of network fees paid to the state-owned electricity distribution company EDS and transmission company EMS. While electricity supply prices have been adjusted several times over the past years, network fees have remained unchanged since 2021.³ Maintaining adequate network fees is particularly important in a context of energy transition, which requires a modernized grid, improved security, and the integration of renewables.

Natural Gas Tariffs

3. Following three tariff increases during 2022–23, Srbijagas' liquidity situation has improved although full medium-term cost recovery is yet to be assured. Domestic gas prices appear adequate to cover current operational costs of the company, but the need to finance capital investment planned for the next years appears to warrant further adjustments. Considering liquidity buffers and substantial gas reserves of almost 700 million cubic meters (about ¼ of annual consumption) in gas storage facilities in Serbia and Hungary, no budget support to Srbijagas is anticipated during the 2023–24 heating season. That said, further adjustments in gas tariffs will be assessed in 2024, once there is more information about factors affecting import gas prices facing Serbia, including transit fees.

4. An unexpected new transit fee of about 10 EUR/MWh on Russian gas by Bulgaria in October 2023 poses a significant challenge. Under a purely hypothetical scenario where all the additional costs are borne by Serbia, the estimated annual fiscal impact for Serbia could be around

² Regulated prices adhere to an established methodology approved by Serbia's independent regulator, which aims to align them with total costs and approved total (from regulated and nonregulated segments) revenue benchmarks. These methodologies may need to be amended based on the results of the holistic analysis of the electricity supply pricing system.

³ However, it was agreed to reduce the price that the EDS pays to the EPS for technical losses.

EUR 300 million (0.4 percent of GDP). This would in turn require a large additional average gas tariff increase if it were to be fully offset. In the meantime, planned budget buffers provide room for the authorities to assess the implications for Serbia's gas import costs as any final tariff decisions are made.

5. Similar to reforms for electricity tariffs, reviewing and revising a gas pricing system would help deliver its long-term sustainability. Specifically, the authorities aim to approve a new gas pricing system for the non-regulated sector effective as of May 1, 2024 (end-January 2024 SB, as the pricing system is more straightforward than for electricity). The aim for the new system is to allow for removing gas price controls that have been in place since 2021 for the non-regulated sector in an orderly manner while shielding consumer prices from excessive short-term volatility in gas markets.⁴

⁴ The non-regulated sector includes the corporate sector and district heating companies and accounts for more than 85 percent of total natural gas consumption in Serbia.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Belgrade, December 1, 2023

Dear Ms. Georgieva:

The Serbian economy is recovering well from last year's energy shocks despite headwinds from the adverse global and regional environment. Growth has been picking up and the labor market remains resilient. Supported by lower energy prices, the current account has improved significantly and, with strong FDI inflows, foreign exchange reserves are at a record high. With strong revenue growth and falling energy subsidies, the fiscal deficit has also narrowed significantly. Although inflation remains above target, it has been declining because of our appropriate macroeconomic policy response and favorable base effects. Financial stability has been maintained and close monitoring of the financial sector continues.

Our economic program, supported by the Stand-By Arrangement (SBA) that was approved by the IMF Executive Board on December 19, 2022, aims at preserving macroeconomic and financial stability, boosting the economy's resilience to energy shocks, and fostering higher, greener, and inclusive sustainable growth over the medium term. Performance under the program remains strong. All end-June 2023 quantitative performance criteria (QPCs) were met. The standard continuous performance criteria and other indicative targets were also met. The structural reform agenda has been progressing well, although there were minor delays in implementing the end-July 2023 structural benchmark (SB) for approving an action plan to make medium-term budgeting more effective and binding to allow for additional consultation with IMF fiscal experts.

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) of December 1, 2022, we reiterate our commitment to the policies and objectives of the SBA-supported economic program and update the reform agenda that we intend to implement in 2023–24.

Considering our strong performance under the program, we request completion of the Second Review under the SBA which would allow us to purchase the equivalent of SDR 316.53 million (48.34 percent of quota). Given our success with reducing macroeconomic imbalances, accumulating significant reserve and fiscal buffers, and adequate balance of payments financing, we would like to begin treating the SBA as precautionary starting from this, the Second Review, one review earlier than expected at the time of SBA approval. We will only consider making purchases if our balance of payments deteriorates materially.

Our program will continue to be monitored through quantitative performance criteria, standard continuous conditionality, structural benchmarks, and an inflation consultation clause, as described in the MEFP and the Technical Memorandum of Understanding (TMU). We also request modifications to our program. We request that: (1) the net international reserves (NIR) floor be raised; (2) indicative targets be set for end-September 2024; (3) the SB on EPS restructuring plan be reset to May 1, 2024 and modified; (4) new structural benchmarks be set as outlined in the attached MEFP.

Reviews by the IMF will continue to be conducted on a semi-annual basis to assess program implementation and reach understandings on any further program reforms needed. While we believe that the policies set forth in the MEFP are adequate to achieve the economic objectives under the program, we will promptly take any additional measures that may become necessary for this purpose. We will also consult with the IMF in advance of any revisions to the policies contained in our MEFP or any new policies that may affect program objectives, in accordance with the IMF's policies on such consultations; and we will provide IMF staff with all the data and information necessary for the purpose of monitoring the program.

In line with our commitment to transparency, we intend to make this letter available to the public, along with the MEFP, TMU, and the IMF staff report for the Second Review Under the SBA. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official website of the Serbian government.

Sincerely,

/s/

Ana Brnabić
Prime Minister

/s/

Jorgovanka Tabaković
Governor of the National Bank of Serbia

/s/

Siniša Mali
Deputy Prime Minister
Minister of Finance

Attachments: Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

1. This memorandum supplements our memorandum of December 1, 2022, provides information on recent developments, and presents our economic program for the remainder of 2023 and 2024. The program aims to: (i) preserve macroeconomic and financial stability by tailoring our policy response to ongoing economic shocks; (ii) boost the economy's resilience to energy shocks by pursuing appropriate energy policies and reforms to tackle domestic energy sector challenges, while protecting the most vulnerable; and (iii) foster higher, greener, and inclusive sustainable growth over the medium term by implementing comprehensive structural reforms. The goals of the program are compatible with our aspirations to join the EU.

Recent Economic Developments and Outlook

2. Serbia has been recovering well from last year's energy shocks.

- **Growth.** Serbia's real GDP growth has started recovering and is now projected at between 2 and 3 percent in 2023. On the production side, growth has been driven by the recovery in construction, as well as in services, agriculture, and industry. On the expenditure side, growth was led by net exports amid the real growth in goods and services exports and a fall in imports, and by fixed investment, owing to higher corporate profitability, FDI inflows, and intensive government investment into transport infrastructure. Assuming lower inflationary pressures, a rebound of the global economy and, by extension, external demand, as well as the planned implementation of investment projects in transport, energy and utility infrastructure, we expect GDP growth to pick up to 3–4 percent in 2024 and resume its pre-pandemic growth trajectory of around 4 percent thereafter.
- **Inflation.** Headline inflation has been falling since April 2023, dropping to 8.5 percent in October 2023. This disinflation reflects falling food price inflation and lower core inflation (which fell to 7.3 percent in October). We project inflation to slow to about 8 percent by the end of 2023. The effects of past monetary tightening, the deceleration of imported inflation, favorable base effects, and the expected further fall in inflation expectations will also contribute to falling inflation and its return to the NBS's target bands by Q2 2024. The inflation outlook remains uncertain, however, and we will continue to monitor developments closely, adjusting policies as needed.
- **Balance of payments.** The current account deficit is projected to fall to below 2½ percent of GDP in 2023, reflecting an improved energy balance, robust manufacturing exports, and lower imports. We expect the current account deficit to continue to be more than fully covered by net FDI inflows, supporting the sustainability of Serbia's external position and contributing to significant reserve accumulation. For 2024, we expect the current account deficit to widen to about 3½ percent of GDP as domestic demand increases and as investment strengthens further.

- **Fiscal outcome.** The fiscal deficit in 2023 is expected at 2.8 percent of GDP, in line with the supplementary budget. The additional one-off payment to pensioners in November 2023 will be fully accommodated within this approved envelope. For 2023, total pension and wage expenditures are projected at 10.0 and 9.7 percent of GDP, respectively, taking into account all the ad-hoc pension increases and one-off payments during the year, as well as the ad-hoc wage increase in education and a part of health sector. Agricultural subsidies are expected to reach 1.2 percent of GDP (0.8 percent in 2022). At the same time, we provided space for capital expenditure, which is expected to reach 7.2 percent of GDP. To partly offset the effect of the increased expenditure envelope, we raised excise taxes on tobacco, alcohol and oil derivatives by 8 percent starting from October 2023. The strong fiscal outcome also reflects revenue overperformance, which was supported by strong corporate profitability in the prior year, well as lower budget spending on energy companies. As a result, general government public debt is projected to decline to 53.3 percent of GDP in 2023.

3. Risks to the outlook appear to be broadly balanced. Key risks from the international environment include the global growth outlook, persistent global inflation and, by extension, the degree of monetary policy tightening by leading central banks. Geopolitical relations, and global energy and primary commodity prices also represent risks. When it comes to domestic factors, the risks to the projection are associated with FDI inflows, investments in the energy sector and infrastructure, as well as the pace of recovery of coal production, and, to a certain degree, the outcome of the next year's agricultural season.

4. Yet, the Serbian economy has considerable buffers against uncertainties. These buffers include strong foreign exchange reserves and public sector deposits, relatively low public debt, sustainable external debt dynamics, and a well-capitalized and liquid banking system. Another important anchor is Serbia's attractiveness as a destination for diversified FDI, reflecting its strong macroeconomic track record and its agile policy responses to various shocks. The Stand-By Arrangement provides an additional buffer, while we adjust policies and implement reforms to tackle the crisis and strengthen the economy's performance and its resilience. Serbia's medium-term outlook remains favorable, supported by our commitment to continued responsible macroeconomic policies and to an ambitious structural reform agenda.

Economic Policies

5. We continue to monitor domestic and external developments closely and stand ready to tailor our policy responses as needed. In the context of earlier sharp increases in food and global energy prices, we introduced a set of administrative measures to cushion the impact of price shocks on Serbia's households and firms. In February 2023, we introduced import duties on milk and cheese to protect local farmers. We have also implemented price regulations on gasoline and diesel, as well as on one type of bread and wheat flour, which we are committed to reverse once the economic situation stabilizes, and in any event no later than end-March 2024. These administrative measures are temporary with the goal of moderating the social and economic strains. We have also benefited from the initiative of some domestic producers and retailers who offered to reduce prices

for a limited number of the low-cost food products and other necessities, that are usually purchased by the poorest segments of Serbian population.

A. Energy Sector Policies

6. We are committed to addressing the deep-rooted weaknesses in Serbia’s energy sector by continuing to implement a comprehensive set of much-needed reforms. Our policy decisions under the IMF-supported program have been critical both for ensuring energy security and for maintaining fiscal and external sustainability.

7. The series of electricity tariff increases in 2022–23 helped achieve medium-term cost recovery of the state-owned electricity company EPS. We will now work on ensuring the ongoing sustainability of the electricity supply pricing system.

- Under the SBA, we implemented three consecutive increases in electricity tariffs for the regulated sector and in the cap for electricity prices for the nonregulated sector by 8 percent each time effective from January 1, 2023, May 1, 2023, and November 1, 2023. Previously, we raised electricity tariffs for the regulated sector by 8 percent from January 1, 2022, and by 6.5 percent from September 1, 2022. According to our projections, these increases helped achieve full cost recovery for the EPS and significantly reduced fiscal risks.
- As a next step, we will request the EPS to approve a new electricity supply pricing system for the non-regulated sector, which will become effective with the consent of the General Assembly of the EPS (i.e., the Minister of Mining and Energy) as of November 1, 2024 (**new end-August 2024 SB**). This new system will allow for removing the cap for electricity prices for the non-regulated sector in an orderly manner. It will also include elements that help shield consumer prices from excessive short-term volatility in electricity markets in order to maintain Serbia’s strong international attractiveness as an investment destination. Removing the cap now that EPS production has stabilized and regional electricity prices have moderated would support competition in Serbia’s electricity production and supply sector, promote energy efficiency, and facilitate risk management for EPS.
- We will also undertake a holistic analysis of the electricity supply pricing system (for the regulated and non-regulated sectors, as well as for the prices paid by the EDS for technical losses). The aim of the analysis is to determine how to revise the system as needed to contain risks associated with major cross subsidization between the non-regulated and regulated sectors and ensure that the average electricity supply tariff across all consumer groups continues to cover the total cost of electricity supply (operational expenditure, maintenance capital expenditure and capital investment in new capacity).

8. The gas tariff increases in 2022–23 helped improve the liquidity situation of Srbijagas and brought it closer to medium-term cost recovery. We will now work on ensuring the full sustainability of the gas pricing system.

- Under the SBA, we implemented three consecutive increases in gas tariffs by 11 percent from January 1, 2023, 10 percent effective from May 1, 2023, and 10 percent from November 1, 2023. These increases helped improve the liquidity situation of Srbijagas and helped contain fiscal risks. We plan to reassess the need for further adjustments in gas tariffs once the 2023–24 heating season is over and stand ready to implement ad hoc average gas tariff increases, including as needed to reflect unfavorable external developments, e.g., on transit costs.
- We will approve a new gas pricing system for the non-regulated sector, which will become effective as of May 1, 2024 (**new end-January 2024 SB**). This new system will allow for removing gas price controls for the non-regulated sector in an orderly manner. The new system may include elements that would help shield consumer prices from excessive short-term volatility in gas markets in order to maintain Serbia’s strong international attractiveness as an investment destination.
- The SBA includes a consultation clause in case market prices for gas exceed EUR 250/MWh, on average, during a two-week period, to initiate a discussion on an appropriate policy response, if relevant, and help contain risks to the budget. Current prices fall well short of this market price.

9. We will strive to ensure energy affordability for Serbia’s population. We will continue to rely on a system of block tariffs, with a lower electricity price for households up to a certain electricity consumption threshold. We have also been working on expanding the uptake of the energy-vulnerable consumer protection program that features increased eligibility criteria, and by closely coordinating with local municipalities and running information campaign. In addition, we have introduced amendments to the relevant decree to expand the program to pensioners with minimum pension and to the recipients of mean-tested social assistance program automatically. This has increased the number of beneficiaries significantly.

10. We are committed to implementing reforms to address remaining deep-rooted structural weaknesses in the energy sector. We have involved consultants to help with our reforms. We will also benefit from access to loans from official creditors including the EBRD, the KfW, and Cassa Depositi e Prestiti (CDP) for liquidity support to the energy companies as we transform the energy sector.

- We have prioritized restructuring of the large state-owned energy companies to enhance efficiency and contain fiscal costs and risks. In April 2023, we changed the legal status of the EPS to a joint stock company aiming to professionalize its management and strengthen the company in the long term. Subsequently, we appointed the new EPS Supervisory Board, which includes international and domestic experts. The selection process of a new CEO by the EPS Supervisory Board through a transparent recruitment procedure is also well advanced. For Srbijagas, we will ensure completion of its unbundling by end-2024. We have already made amendments to the Energy Law that call for the establishment of an independent commission that would oversee the transmission system operator for gas – Transportgas (as well as for electricity – EMS). It will make it possible for the two companies to be finally certified by the Energy Agency of the Republic of Serbia and European regulatory bodies.

- We have been working on a well-specified strategic restructuring plan for the EPS (**end-December 2023 SB**). The plan, which is needed to address EPS's many problems, will specify reform priorities in the EPS governance and organizational structure, including managerial and sectorial layout, audit processes, internal controls, and compliance procedures. Given the complexities of the needed reforms, we request that the end-December 2023 structural benchmark **be reset to May 1, 2024** to allow time to deliver a credible plan that meets strategic interests of Serbia and EPS, and be modified, as the new EPS Statute as a joint-stock company makes it accountable to the EPS General Assembly rather than the government. To ensure ownership and accountability, the Supervisory Board and the Executive Board will be closely involved into the development of all the operational elements of EPS restructuring plan (organizational and financial restructuring, human resources, procurement, investment project development, reporting, risk management and environment) with the consent of the General Assembly (i.e., the Minister of Mining and Energy), in line with the EPS Statute.
- In line with our commitment to transparency, we will publish all strategic and financial plans for EPS and Srbijagas. We will also continue with the publication of monthly reporting of overdue receivables to Srbijagas and EPS from their top-20 debtors including changes in overdue receivables since January 2022.
- We will implement governance reforms in EDS in line with the new Law on SOE governance (142). In the meantime, will continue monitoring the adequacy of grid fees paid to the state-owned electricity distribution company EDS.
- We plan to adopt the Integrated National Energy and Climate Plan (INECP) shortly after the adoption of the new Energy Development Strategy of the Republic of Serbia. The INECP will define the goals of the Republic of Serbia for reducing greenhouse gas emissions, increasing the share of renewable energy sources in gross final energy consumption, and setting goals for greater energy efficiency in line with the new Energy Development Strategy of the Republic of Serbia. The draft INECP has already undergone several rounds of public hearings. We are in the process of obtaining comments from the Energy Community Secretariat.
- In line with program commitments, we prepared a prioritized investment plan for the energy sector with projects over the next 2–5 years and that will enhance energy security, stabilize electricity generation, and conserve energy. We will continue working on fully developing the projects that are planned, identifying entities that will bear the costs of the envisaged investments, as well as sources of financing. We will update the plan on an ongoing basis to reflect the evolving needs of the energy sector and results of project evaluations.
- Once a new government is formed after the elections, it will adopt a new Energy Development Strategy of the Republic of Serbia which is consistent with this investment plan. The draft strategy has already been prepared; public consultations will take place as an early action by the new government.

- We have successfully set up a legal framework to increase private investment in renewables through auctions and other measures, working closely with international development partners. The first wind and solar auctions have already taken place in a transparent manner, and 425,2 MW new capacities for wind power plant and solar power plants have been allocated. The next auctions are planned for 1H2024 and 1H2025.
- We have also prepared amendments to the Law on Energy to introduce a new concept of active consumers for those who want to install more own generation capacity while delivering some electricity to the grid. We plan to send these amendments for approval as soon as a new government is formed.

B. Fiscal Policies

11. We commit to narrowing the 2024 fiscal deficit to 2.2 percent of GDP. As a **prior action** under the SBA, the National Assembly approved the 2024 budget in line with the program consolidation path and consistent with the following commitments:

- We will increase the public sector wage bill by about 12 percent, which ensures that the wage bill as a share of GDP does not exceed 10 percent of GDP, while allowing an adequate adjustment in wages to help attract and retain employees.
- We will increase pensions consistent with the revised indexation mechanism of 2022, linking pension growth in 2024 to the average nominal wage growth. For this purpose, average nominal wage growth is defined as average annual growth of wages in the economy as of June 2023 as published by the Statistical Office by the Republic of Serbia (SORS). We will refrain from ad-hoc increases in the pension base and/or pension bonuses going forward.
- We will also increase the nontaxable PIT threshold by 15 percent from 21,712 RSD to 25,000 RSD.
- We will resume regular indexation of excises in line with inflation, following the 8 percent exceptional increase implemented in October 2023.
- We will budget capital spending at about 7 percent of GDP to address Serbia's sizeable infrastructure needs and boost growth potential.

12. Our fiscal financing strategy for 2024 relies on domestic and external sources. It envisages borrowing domestically and internationally, drawing on the government's cash deposits, and borrowing from our international and bilateral partners. High government's cash deposits provide a robust buffer. Since the external environment remains relatively supportive, we will start treating the SBA as precautionary at the time of the 2nd review, one review earlier than originally planned. Reflecting ongoing strong fiscal performance, public debt is expected to fall to about 53 percent of GDP by end-2023.

13. We will continue to contain fiscal risks and prepare contingency measures as needed.

We will continue to closely monitor revenue and expenditure risks related to ongoing external and domestic challenges. We will maintain strong liquidity buffers and will not accumulate public sector external debt payment arrears (continuous target). We will also refrain from accumulating domestic payment arrears (indicative target). Our efforts to contain public spending will continue to be monitored through a program ceiling on current primary spending of the Republican budget, excluding capital spending and interest payments (quantitative performance target). Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law and ad hoc pension increases and cash payments to pensioners will be avoided (**new Structural Benchmark, continuous**). Any financial support to public enterprises will be delivered in a transparent and timely manner and channeled through the government budget. In our assessment, the liquidity situation of the state-owned enterprises in the energy sector has improved significantly, and these SOEs will not require any additional liquidity support in 2024 and beyond. In case these SOEs will have to rely on budget support for liquidity, we will reassess our energy sector policies accordingly.

14. We are committed to strictly limiting the issuance of state guarantees. In 2023, we issued the following new state guarantees for liquidity support to the energy SoEs:

- Srbijagas' commercial loans of about EUR 350 million to provide liquidity support and refinance previous commercial borrowing.
- EPS loans from the EBRD (EUR 300 million) and additionally up to EUR 100 million from the KfW. The KfW loan and EUR 100 million of the EBRD loan will be disbursed in 2024.

Apart from providing state guarantee for EPS liquidity loan from Cassa Depositi e Prestiti for EUR 100 million, we will not issue any new state guarantees in 2024 for liquidity support to the SOEs, or state guarantees for any company in the portfolio of the former Privatization Agency. The Government will also refrain from issuing any implicit state guarantees. We will continue to issue guarantees for project loans provided by multilateral financial organizations in support of our investment and reform agenda.

15. We are committed to maintaining fiscal discipline over the medium term. Supported by the fiscal rule, we plan to narrow the fiscal deficit further in the coming years and to reduce public debt to below 50 percent of GDP over the medium term, further building fiscal buffers. For 2025, we will target a further reduction in the fiscal deficit to 1.5 percent of GDP. To help support growth, we will maintain high levels of capital spending, while containing current spending.

C. Structural Fiscal Policies

16. A new set of fiscal rules, incorporated into the budget system law in late-2022, will help anchor fiscal discipline over the medium term. Upcoming upgrades to fiscal data and government finance statistics (GFS) will require a review of the numerical fiscal parameters in 2024–25. With Fund technical assistance (TA) support, we are working on automating the preparation of

monthly GFSM 2014-compliant fiscal data, expanding the coverage of indirect budget users and extrabudgetary units to all materially relevant general government units, and developing data for the compilation of financial accounts. We have formed coordination committees between SORS, the MoF and the NBS to ensure smooth coordination between all participating government bodies. Moreover, comprehensive improvements to the GFS are expected with the next 5-yearly revision of national account statistics in 2024. We will accordingly update fiscal rule definitions and parameters in the Budget System Law to align them with statistical definitions, revisions to the national accounts and other improvements to fiscal data (**end-November 2024 SB**). A bylaw to the Budget System Law prescribes the timeline and methodology for inclusion of entities into the General Government. We plan on preparing a draft conceptual note on our upgraded fiscal data by January 2024, which will facilitate coordination of this data improvement project. We also plan on aligning our debt reporting with the revised fiscal data coverage.

17. We will continue to enhance public financial management (PFM). Our priority is to strengthen the medium-term budgetary framework, so that we could complement our focus on annual budgets with a medium-term perspective. In September 2023, we adopted an Action Plan for Improving Medium Term Budget Framework in line with IMF recommendations (**end-July 2023 SB**) to make medium-term budgeting more effective and binding beginning from 2025, and to increase transparency of information for improved accountability. To facilitate this process, a new IT system that consolidates budget preparation, execution, and reporting has become functional in 2023. We will continue to ensure strict adherence to the budget calendar and to the transparency of the budget process, inter alia expanding the content of our within-year budget reports. In addition we are advancing with our work to introduce green budgeting. We will complete a draft methodology by early 2024.

18. Strengthening the role and capacity of the Fiscal Risks Monitoring Department (FRMD) at the MOF remains an important objective.

- Following the adoption of the Unified Methodology for Fiscal Risks Monitoring, we signed Protocols with all relevant institutions to establish a formal basis for the MOF to collect data needed for monitoring fiscal risks.
- We are developing models and tools to operationalize the use of the new methodologies to monitor fiscal risks stemming from SOEs, local governments, litigation, and natural disasters. We have recently started using firm-level balance sheet data to identify vulnerable SOEs based on the Altman Z-score which measures insolvency risk. We will continue with improvement and standardization of our reporting in line with the methodologies.
- We expanded the reporting on fiscal risks in the November update of Fiscal Strategy for 2024–26, and we will further strengthen fiscal risk reporting in the next Fiscal Strategy for 2025–27. We will also continue using the methodology that was developed with IMF TA support for managing fiscal risks associated with the state-guarantee schemes.

19. We are further strengthening our public investment management (PIM) framework.

- We made major progress towards establishing a single project pipeline to cover all ongoing and future investment projects. The MOF agreed with the Ministry of European Integration (MOEI) on redesigning the pre-implementation stage regarding the strategic relevance evaluation to overcome the dualism between the Capital Investment Commission and the National Investment Committee. Accordingly, a new Decree on Capital Projects was adopted in September 2023. It comprehensively regulates procedures for selecting and monitoring the implementation of capital projects, with the aim of more effective and efficient management of public funds, regardless of the source of funding. We are currently preparing the necessary secondary legislation and forms to make the decree operational.
- The new Public Investment Management System (PIMIS), which includes an integrated database of public investment projects, became operational and open for data entry by all authorized proposers on June 1, 2023. This system allows the automation of the evaluation and monitoring of capital projects, lowering related fiscal risks. PIMIS will be upgraded based on the new legal framework and incorporate projects in the pre-implementation phase starting from the project idea stage. We will expand PIMIS's usage to the national level by mid-2024, and aim to have local information systems compatible with PIMIS by early 2025.
- Following the amendment of the PIM Decree to incorporate indicators for environmental impact assessments in the PIM process, we are currently developing the relevant rulebooks and forms.
- We will remain committed to the following PIM processes to support public investment and capital budget planning: (i) we will ensure full implementation of the strategic relevance assessments of projects in line with the Decree on Capital Projects; (ii) we will continue informing the Republican Commission on Capital Investments of projects monitored and appraised by local and provincial governments to the extent possible until the legal framework and the IT systems are in place; (iii) we will continue to monitor projects of special importance in their implementation stages and inform the Republican Commission on Capital Investments about PPP projects; and (iv) we will continue including all project loans of the general government in the budget.

20. We remain committed to further modernizing our tax administration in line with our 2021–25 Transformation Program. This program provides strategic guidance in modernizing tax administration by increasing our use of electronic business processes, and by improved taxpayer services and a risk-based approach to compliance. Our reforms will reflect the updated Tax Administration Diagnostic Assessment Tool (TADAT) review and will continue to be supported by IMF TA and the World Bank Tax Administration Modernization Project.

- We successfully introduced a new e-fiscalization model in May 2022 and an electronic invoice exchange system in early 2023. We expect that general taxpayer compliance will increase and adverse audit findings will decrease.
- We adopted a new reengineered business model and an action plan and will finalize the tender for procuring a new commercial-off-the shelf-system (COTS) system by end-2023. The system,

which is expected to become operational gradually over several years, will facilitate the effective implementation of key reform activities, including the modernization of business processes.

- We have been working on addressing data gaps and adjusting the analytical tools to improve the VAT gap estimations to better identify the sources of non-compliance.
- Our dedicated unit to analyze the level of noncompliance of high-net-worth individuals has launched the first audits and is close to completing the first case. We expect that this new enforcement activity will have a positive impact on general taxpayer compliance of high-net-worth individuals. Our legal framework envisages that taxes on previously non-reported assets arising from legal activities will be assessed according to the standard tax regime plus interest, while taxes on non-reported assets where the origin cannot be documented will be taxed at a rate of 75 percent.
- Developing a new HR strategy for the tax administration and accelerating hiring procedures has become a top priority given increasingly precarious staffing levels at the STA, with staffing having declined significantly in recent years. With an impending retirement wave and the ongoing shift to higher skilled work, it is imperative to hire new skilled staff urgently. Given the macroeconomic importance of a fully functioning staff, we will finalize a thorough analysis of the drivers of the hiring bottlenecks by end-December 2023. We will subsequently take appropriate action to address identified bottlenecks expeditiously.

21. The phased establishment of a central electronic public wage and employment registry is at the final stage. This central registry *Iskra* will allow for better planning, executing, and controlling of wage spending. The system already covers: (i) direct budget users; (ii) the judicial sector; (iii) the cultural sector; (iv) labor employment and social affairs sector; and (v) the education sector apart from higher education institutions. The next step is to further expand the system and make it fully operational for the health sector (**end-January 2024 SB**), thus covering around 350 thousand public sector workers, or around 80 percent of the total. Coverage of the remaining public employees (Ministry of Defense, Ministry of Internal Affairs, Security Information Agency BIA and higher education institutions) will be completed by 2027. The *Iskra* system will play an essential role in designing and implementing a comprehensive reform of the public wage system, which is becoming increasingly important, as wage compression and competition from the private sector make it increasingly difficult to attract essential high skilled employees such as engineers, IT specialists and managers in the public sector.

D. Monetary and Exchange Rate Policies

22. The primary objective of the NBS's monetary policy is to achieve and maintain price stability. This plays a crucial role in contributing to economic and financial stability and in fostering sustainable economic growth. An important pillar of this objective is the relative exchange rate stability of the domestic currency vis-à-vis the euro. The National Bank of Serbia (NBS) stands ready to use all available policy instruments to deliver on its objectives.

- Our existing policies are consistent with the objective of keeping inflation on a declining path in 2023 and bringing it within the NBS's tolerance band (3 percent $\pm 1\frac{1}{2}$ percentage points) by mid-2024. We have tightened monetary conditions since 4Q2021 in a gradual and continuous fashion, at first by tightening liquidity conditions, and afterwards by raising key policy rate by 550 bps cumulatively from April 2022 to reach 6.50 percent in July 2023. We also raised the interest rates on deposit and lending facilities to 5.25 and 7.75 percent, respectively. During subsequent monetary policy committee meetings, we decided to keep the key policy rate unchanged given the continued easing of global inflationary pressures and the downward path of domestic inflation and its expected return within the target tolerance band over the monetary policy horizon. At the same time, we continued raising the weighted average repo rate to 5.54 percent at end-October, 2023.
- The goal of the September 2023 decision to increase reserve requirements was to reduce excess dinar liquidity in the banking sector and to complement the successive policy rate hikes, thus facilitating disinflation.
- We will continue to sterilize the dinar liquidity that has been injected mainly through foreign exchange purchases.
- The NBS will continue to monitor and analyze the movement of key inflation factors in the domestic and international environment and make decisions depending on projected inflation movements.
- In the context of the SBA, inflation developments will continue to be monitored through a consultation clause with consultation bands set around the program's central inflation projections (Table 1a). As envisaged by the TMU (¶121), in case of deviations we will discuss with the IMF staff the reasons for the deviation and the appropriate policy response.

23. We are committed to sustaining relative exchange rate stability through this period of heightened uncertainty. With this in mind, we have been accumulating gross international reserves, which stood at EUR 24.4 billion at end-October 2023, as external conditions improved. We are committed to maintaining gross international reserves above the revised NIR floor under the program. We request that this floor be raised to be consistent with a level equivalent to 90 percent of the ARA metric on gross international reserves as improved macroeconomic and external conditions have contributed to a comfortable reserve buffer that supports our stabilized exchange rate regime. Absent major negative shocks, we are committed to raising this floor further to 100 percent of the ARA metric in subsequent reviews.

24. Promoting dinarization remains an important objective. Our dinarization strategy has three pillars: (i) maintaining overall macroeconomic stability; (ii) creating favorable conditions for developing the dinar bond market; and (iii) promoting hedging instruments.

- In October 2023, deposit dinarization reached 41.8 percent, which is slightly lower (by 0.1 pp) compared to an all-time high one month before, while dinarization of receivables declined

somewhat to 34.0 percent because of the fading impact of the government credit guarantee schemes that were active during the pandemic period. Dinar savings of households recorded a decline in H1 2022 amid the adverse global developments, but since November 2022, their growth accelerated and reached the new all-time high of RSD 119.6 bln in October 2023. Importantly, and as another sign of confidence in the system, the share of time deposits in total dinar savings increased to 77.9 percent as of October 2023 while the share of demand deposits declined.

- Beyond pursuing policies that support macroeconomic stability, several specific measures to foster dinarization have been put in place, such as lower reserve requirements rate on dinar sources while paying remuneration on reserve requirement allocation in dinars, mandatory down-payment ratios for FX loans, and systemic risk buffers. As planned, in June 2023, we adopted higher capital requirements on banks' new FX-indexed lending to corporates disbursed from July 2023, with deduction of capital starting from January 2025.
- We have finalized the legal framework for auctioning dinar-denominated securities through Euroclear. We plan to launch the first auction through this system in 2024.

25. During the Fund-supported program period we will not impose or intensify restrictions inconsistent with the IMF's Articles of Agreement. Specifically, we will not, without IMF approval, impose or intensify restrictions on the making of payments and transfers for current international transactions, nor introduce or modify any multiple currency practices or conclude any bilateral payment agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement. Moreover, we will not impose or intensify import restrictions for balance of payments reasons (Table 1b).

E. Financial Sector Policies

26. Maintaining financial stability is a key priority and we will therefore continue to monitor risks in the banking sector closely. The banking system remains stable owing to adequate capitalization, ample liquidity, and strong profitability. Banks' average capital adequacy ratio stood at more than 22 percent in July 2023, well above the regulatory prescribed minimum of 8 percent. Liquidity and profits were similarly strong.

27. In 2022–23 the NBS introduced regulations to address the impact of shocks and to preserve financial stability and support the economy and its citizens.

- In June 2022, the NBS adopted a regulation enabling banks to mitigate the negative effects of the change in government bond prices on bank capital by excluding 70 percent of the net unrealized losses and gains from the valuation of the bonds from the calculation of CET 1 capital until the end of 2022 which has been prolonged further. We will start phasing it out in 2024.
- In December 2022, the NBS extended a temporary measure to ease repayment conditions of housing loans. Under the measure, banks can offer relief by extending the repayment period of

housing loans for a maximum of five years, without affecting the regulatory treatment of these claims. This measure is set to expire at end-2023.

- In September 2023, the NBS adopted a temporary measure capping the interest rate for first-time users of variable rate housing loans of up to EUR 200,000 to preserve stability of the financial system, to prevent increase of the NPLs in mortgage portfolio, and to protect citizens in the uncertain environment of fluctuating interest rates. The temporary measure is valid until end-2024. The cap is set at 4.08 percent for loans approved by end-July 2022 and at the initial interest rate for the loans approved since July 2022 if the interest rate is above 4.08 percent. For newly issued loans, banks' margins are capped at 1.1 percent until end-2024, while the fixed interest rates are capped at 5.03 percent. The same decision temporarily abolishes early repayment fees for housing loans.
- In December 2022, by the Decision Amending the Decision on Capital Adequacy of Banks, we adopted a permanent measure enabling banks to restructure their receivables from financially distressed natural persons in respect of consumer, cash, or similar loans by extending the maturity of these loans by up to three years relative to the current regulatory arrangement, consequently restructured loans would have stage 2 treatment under IFRS9.

28. We will continue to strengthen financial sector regulatory and supervisory frameworks to fully align them with international standards. We continue to enhance the prudential framework for banks and insurance companies to ensure full compliance with international standards and EU requirements. We will further harmonize our financial legal framework with the EU acquis, considering the specificities of the Serbian financial market. With this in mind, we finalized a gap analysis of the domestic legal framework for banks with those in EU and improved the regulatory framework for liquidity, which encompasses the introduction of the NSFR indicator as well by adoption of the new Decision on Liquidity Risk Management by Banks. As a next step, we will work on introducing the regulatory limit for the leverage ratio for banks and thereafter prudential reserves.

29. NPL ratios remain low, but we continue to monitor asset quality closely. Despite challenging economic environment, NPLs remain at a historical low of 3.17 percent as of September 2023. Yet, the current context of changing interest rates and inflationary pressures warrants continued close monitoring. To resolve the residual assets of the DIA portfolio of bad assets, we decided to sell receivables from the portfolio as individual packages of receivables. Each financial institution will prepare its own receivables package for sale.

30. We will continue to implement reforms of state-owned financial institutions. We will ensure strong oversight of out state-owned financial institutions.

- We will continue to implement the government strategy for Banka Poštanska Štedionica (BPS) for the period 2021–25. We will continue to closely monitor risks related to new lending to medium-size companies, SOEs and local governments. To achieve BPS's strategic goals, to maintain and improve its position within Serbia's banking sector, and to expand its domestic

and foreign client base in terms of its credit portfolio, and consequently, the balance sheet growth, we increased BPS capital by RSD 5 billion in June 2023.

- The Development Fund and AOFI will continue to implement (i) the supervisory boards' decisions recognizing losses on their credit portfolios, and (ii) the government conclusion to restrict the institutions' exposures to SOEs, enhance risk management frameworks, prevent further deterioration in asset quality, and resolve impaired assets. In addition, in line with the Action Plan as defined in the adopted Concept of Development Financing Policy, both DF and AOFI have started raising awareness among SMEs, introducing external audit, improving performance management, internal audit risk management and business compliance functions.

31. We continue to enhance Serbia's capital markets and to diversify sources of long-term financing in line with the Capital Market Development Strategy (CMDS). We have approved all bylaws needed to operationalize the new Law on Capital Markets that became effective from January 2023. We also prepared amendments to the CMDS and the action plan to incorporate the launching of the Corporate Bond Issuer Program which aims to educate, promote, and support issuers in their preparation for issuance of corporate bonds, starting from January 2024. The first corporate issuances are expected in 2H2024. As we consider changes to the existing tax system to make it more compatible with capital market development, we will seek the IMF views on our proposals.

F. Structural and Governance Policies

32. We have been working on information systems that cover social protection programs supporting vulnerable groups, reducing inequality, and fighting poverty. We are working on integrating the Social Card register with the information system SOZIS which envisages adding the module for social benefits and services at the local level, the module for the payment of rights at the republic level, the integration of the Republic and Provincial Institute for Social Protection, the Chamber of Professional Social Protection of Workers, and creation of modules for reporting by system management levels and interested users.

33. We have been developing a comprehensive agenda for green growth to ensure a more sustainable and environmental-friendly economic development. This is important in its own right and to prepare for the EU CBAM and to continue to attract strong FDI to Serbia. In June 2023, we adopted the Low-Carbon Development Strategy for 2023–30 with projections until 2050. The strategy is harmonized with Serbia's INECP and the Energy Development Strategy (1110) and aims to fulfil Serbia's obligations under the Paris Agreement, produce more ambitious goals for reducing greenhouse emissions and present scenarios to harmonize the levels of Serbian greenhouse gas emissions with those in the EU, in an economically acceptable and socially fair manner. Quantitatively, the goal is to reduce greenhouse emissions by 33 percent in 2030 and by 65 to 76 percent by 2050 relative to the emission level of 1990. This is envisaged to be met mostly by cutting emissions in the production of electricity and heat, increasing energy efficiency, and using renewable energy sources in the industrial sector. With this in mind, we have been prioritizing green investments, including in

renewable energy and energy efficiency, and making progress on green budgeting. We will consider carbon pricing mechanisms once the overarching goals and principles have been designed.

34. We will continue to support reforms to strengthen the rule of law and fight corruption. Over the past months, we have prepared the Draft Amendments to the Law on Anti-Corruption Agency that will broaden the definition of persons with top executive functions (PTEFs) to include Ministerial chief of cabinets and advisors to strengthen our asset declaration regime. In addition, these amendments will address legal gaps regarding SOE management and would clearly define them as PTEFs. We held public discussions on these amendments in August 2023 and expect for the Government to approve them in April 2024. We have also improved coordination and data exchange between relevant agencies and the Agency for the Prevention of Corruption. This includes verification processes to cross reference information, including beneficial ownership. We will continue to address outstanding GRECO recommendations outlined in the 5th evaluation report. We will continue to build the human capacity at the Agency for the Prevention of Corruption and commit to providing it with sufficient budgetary resources to fulfill its mandate.

35. We will also continue to address the grey economy. In March 2023, we adopted a new program for countering the shadow economy for 2023–25 that lists 23 measures aimed at meeting three primary objectives: (i) strengthening the capacity of inspections and misdemeanor courts; (ii) improving the tax oversight and reporting procedure; and (iii) facilitating fiscal and administrative relief for legal businesses. The measures include improving the efficiency of inspectorates, the development of mechanisms for better coordination of different inspection services, enhancing capacity of Tax Administration to implement new fiscalization and e-invoice regulations, strengthening IT services within Tax Administration, lowering of wage taxes, establishing a single register of all parafiscal charges, promoting cashless payments, allowing cashless payments for public services and fees, simplifying employment procedures for certain job categories, financial and fiscal education of young people, etc. The program was prepared with the private and civil sectors.

36. We remain committed to resolving enterprises in the portfolio of the former Privatization Agency in accordance with the Privatization Law.

- We will not reopen MSK.
- We will continue exploring options for potential strategic investments or partnerships for Lasta.
- We remain committed to a plan for Resavica mines, that foresees the closure of several unviable mines, while developing a voluntary social program and labor optimization plan. We will ensure sufficient resources in the budget to transparently support Resavica through subsidies and to prevent further accumulation of arrears to EPS.

37. We will continue strengthening the AML/CFT framework.

- We will continue our regular reporting under the EU agenda. We will ensure the adequate and timely implementation of the requirements of all AML/CFT related EU Directives and Regulations, in line with the FATF Standards and with EU implementation deadlines.
- The competent AML/CFT authorities, including the Administration for Prevention of Money Laundering and Law Enforcement Authorities (LEA), will continue with all their regulatory, supervisory, and other activities, as well as continuous strengthening of their capacities through adequate external and internal trainings, especially concerning the emerging AML/CFT trends and risks. The NBS will continue enforcing AML-CFT regulations via on- and off-site inspections of financial institutions, including assessing the impact of non-residents from high-risk foreign countries on the risk level of each individual banks as well as the impact of cross-border threats in financial flows, and for providers of services related to virtual currencies.
- To support the increased transparency of Beneficial Ownership of legal entities operating in Serbia (FATF's R.24), we will rapidly implement the amended the Law on Central Records of Beneficial Owners (Official Gazette, No.41/18, 91/19, 105/21, and 17/23), while at the same time ensuring access to these Central Records by relevant authorities. We will also continue closely monitoring the implementation of targeted financial sanctions by regulated entities to prevent potential spillovers related to the Ukraine conflict.

38. We will continue to strengthen the quality and transparency of national statistics. We remain committed to comprehensive, timely, and automatic data sharing across relevant compiling agencies (including MOF, SORS and NBS) for statistical purposes. NBS and SORS are coordinating on the compilation of financial and non-financial accounts for general government consistent with GFSM 2014, targeting transmission to the IMF and Eurostat from 2026. The 5-yearly benchmark revision of national accounts estimates is scheduled for October 2024, and will feature methodological improvements and new data sources, drawing among others on the 2022 census, the 2023 agriculture census and upgraded government finance statistics.

G. SOE Reforms

39. We are fully committed to changing the operation of SOEs in Serbia, spearheaded by the recent landmark SOE governance law. The new SOE governance law, which is aligned with the OECD Guidelines on Corporate Governance of SOEs, was adopted by the National Assembly in September 2023 and will take effect from September 16, 2024. On November 14, 2023, the Government of Serbia formed a Coordination Body consisting of members of all relevant stakeholders to assess the compliance of the provisions of this new SOE law with the existing special laws. We will prepare the necessary bylaws to make the Law fully operational in line with the timeline envisaged by the Law. Given its complexity, we will prepare a draft bylaw on public sector obligations ahead of the timeline, by end-September 2024 (**new end-September 2024 SB**).

Program Monitoring

40. Progress in the implementation of the policies under this program will continue to be monitored through quantitative performance criteria (QPCs), indicative targets (ITs), including an inflation consultation clause and natural gas prices consultation clause, continuous performance criteria (CPCs) and structural benchmarks (SBs). These are detailed in Tables 1a, 1b, and 2, with definitions provided in the attached Technical Memorandum of Understanding (TMU). Reviews by the IMF will be conducted on a semi-annual basis to assess program implementation and reach understandings on any further reforms needed. The third review is scheduled to be completed soon after June 3, 2024, and the fourth and final review is scheduled to be completed soon after December 2, 2024.

41. The NBS will continue maintaining a strong safeguards framework and internal controls environment. As required by the IMF's safeguards policy, we will continue to engage independent external audit firms to conduct the audit of the NBS in accordance with international standards. We will also provide Fund staff with the necessary NBS's audit reports and authorize representatives of the external audit firm of the central bank to hold discussions related to their reports with Fund staff.

Table 1a. Serbia: Quantitative Performance Criteria and Indicative Targets Under the SBA 2023–24¹

	2023									2024				
	End-Jun.			End-Sep.			End-Dec.			End-Mar.		End-Jun.		End-Sept.
	QPC	Adj. Prog.	Act.	IT 5/	Adj. Prog.	Act.	QPC	Rev. QPC	IT 5/	Rev. IT 5/	QPC	Rev. QPC	IT 5/	
	CR 23/243			CR 23/243			CR 23/243			CR 23/243		CR 23/243		New
I. Quantitative Performance Criteria (QPCs, semi-annually)														
1 Ceiling on the general government fiscal deficit (in billions of dinars) 2/ 3/	86.9	77.3	-45.0	121.7	101.9	-15.5	245.0	245.0	82.0	82.0	102.4	102.4	136.5	
2 Ceiling on current primary expenditure of the Serbian Republican Budget including net lending, excluding capital expenditure and interest payments (in billions of dinars) 2/	736.6	720.3	670.2	1,079.9	1,060.0	1,024.7	1,497.5	1,497.5	374.3	378.2	767.8	767.7	1,132.1	
3 Floor on Net International Reserves (in billions of euros) 4/	6.2	6.0	17.1	6.3	6.1	18.7	6.4	8.0	6.6	8.2	6.8	8.4	8.6	
II. Indicative Target (IT) 5/														
4 Ceiling on accumulation of domestic payment arrears by the consolidated general government except local governments, the Development Fund, and AOFI (in billions of dinars) 6/	1.0		-0.5	1.0		-0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
III. Continuous Performance Criterion														
5 Ceiling on accumulation of external debt payment arrears by General Government, Development Fund, and AOFI (in billions of euros)	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
IV. Inflation consultation band (quarterly) 7/														
Upper band limit (1.5 percent above center point)	15.5			11.5			9.7	9.7	7.7	7.7	6.8	6.8	6.0	
End of period inflation, center point 8/	14.0		13.7	10.0		10.2	8.2	8.2	6.2	6.2	5.3	5.3	4.5	
Lower band limit (1.5 percent below center point)	12.5			8.5			6.7	6.7	4.7	4.7	3.8	3.8	3.0	

1/ As defined in the Memorandum of Economic and Financial Policies, and the Technical Memorandum of Understanding.

2/ Cumulative since the beginning of a calendar year.

3/ Refers to the fiscal balance on a cash basis, including the amortization of called guarantees. A surplus is reported with a negative sign.

4/ Calculated consistent with Gross International Reserves at 80 percent of the ARA metric (see TMU). Targets proposed for Dec 2023 and beyond are calculated at 90 percent of the ARA metric.

5/ Indicative targets include (i) the items under I. Quantitative Performance Criteria at end-March and end-September, and (ii) the targets under II Indicative Target (IT). ITs are not monitored as part of program conditionality.

6/ Net cumulative change since the start of the year, measured as the change in the stock at the test date and at the start of that year.

7/ Staff level consultation is required upon breach of the band limits at the specific test date.

8/ Defined as the change over 12 months of the end-of-period consumer price index, as measured and published by the Serbian Statistics Office.

Table 1b. Serbia: Standard Continuous Performance Criteria

Not to impose or intensify restrictions on the making of payments and transfers for current international transactions.

Not to introduce or modify multiple currency practices.

Not to conclude bilateral payments agreements which are inconsistent with Article VIII.

Not to impose or intensify import restrictions for balance of payments reasons.

Table 2. Serbia: Structural Benchmarks Under the SBA

Description	Target Date	Status	Objective
Prior Action			
1 Approval by the National Assembly of the 2024 budget consistent with key fiscal parameters, including the overall deficit.		Met	Fiscal transparency and fiscal discipline.
Structural Benchmarks			
Fiscal			
2 Adopt an action plan to make medium-term budgeting more effective and binding.	End-July 2023	Not met, completed in September 2023	Continued strengthening of public financial management practices in support of achieving fiscal objectives.
3 Increases in pension spending will strictly follow the annual indexation mechanism defined in the pension law, and there will be no ad hoc pension increases and cash payments to pensioners.	Continuous from January 1, 2024	New	Supports achieving fiscal objectives and the credibility of the fiscal rule.
4 Expand and fully operationalize the central electronic public wage and employment registry for the health sector.	End-January 2024		This reform would help rationalize pay and improve incentives across public sector.
5 Finalize a review of the quantitative indicators of the fiscal rule to reflect, as needed, revisions to the national account/ GFS methodology and other improvements to fiscal data.	End-November 2024		Continued strengthening of public financial management practices in support of achieving fiscal objectives, and improved fiscal data.
Energy			
6 A decision to increase average natural gas tariff by at least 10 percent, effective November 1, 2023.	End-October 2023	Met	Move energy tariffs toward cost recovery, and control fiscal risks.
7 A decision to increase average electricity tariffs by at least 8 percent, effective November 1, 2023.	End-October 2023	Met	Move energy tariffs toward cost recovery, and control fiscal risks.
8 Adopt by the General Assembly of EPS a restructuring plan for EPS.	May 1, 2024	Revised date and modified	Address the medium- to long-term viability of the company and the security of electricity production.
9 EPS to approve a new electricity supply pricing system for the non-regulated sector, which will become effective with the consent of the General Assembly of the EPS as of November 1, 2024.	End-August 2024	New, in the spirit of understandings at SBA approval	Move energy tariffs toward cost recovery and a sustainable structure, create financial space for investments and control fiscal risks.
10 Approve by the government a new gas pricing system for the non-regulated sector, which will become effective as of May 1, 2024.	End-January 2024	New, in the spirit of understandings at SBA approval	Move energy tariffs toward cost recovery and a sustainable structure, create financial space for investments and control fiscal risks.
Other			
11 Prepare a draft bylaw that has been sent to ministries and stakeholders with appropriate expertise for comments, with the draft bylaw prescribing the procedure and method of determining public sector obligations incurred by SOEs when implementing the goals of the public sector.	End-September 2024	New, in support of ongoing reforms	Make effective the provisions and intent of the new SOE governance law, and strengthen SOE management.

Attachment II. Technical Memorandum of Understanding (TMU)

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definition of indicators used to monitor developments under the program. To that effect, the authorities will provide the necessary data to the European Department of the IMF as soon as they are available. As a general principle, all indicators will be monitored on the basis of the methodologies and classifications of monetary, financial, and fiscal data in place on October 31, 2022, except as noted below. The quantitative performance criteria and structural benchmarks for assessing program performance are shown in Tables 1a, 1b and 2 of the Memorandum of Economic and Financial Policies (MEFP). Definitions and adjustments of these targets are outlined below.

2. For program purposes, the consolidated general government comprises the Serbian Republican government (without indirect budget beneficiaries that are not included in the budgetary execution system), local governments (including the Province of Vojvodina), the Pension Fund, the Health Fund, the Military Health Fund, the National Agency for Employment, the Roads of Serbia Company (JP Putevi Srbije) and any of its subsidiaries, and the company Corridors of Serbia. Reflecting the ongoing work program to expand the coverage of the general government sector in within-year reporting, consolidated general government data for 2023 and beyond include service institutions like dormitories in the education sector now included in the budgetary execution system, and health sector institutions reported by the Health Fund. Any new extra budgetary fund or subsidiary established over the duration of the program would be consolidated into the general government. Consolidated general government data for 2024 will include also science institutes, agencies and high schools.

A. Fiscal Conditionality

3. The general government fiscal deficit is defined as the difference between total general government expenditure (irrespective of the source of financing) and total general government revenue (including grants). General government expenditure includes expenditure financed from foreign and domestic project loans and grants; payments of called guarantees, cost of bank resolution and recapitalization, cost of debt takeover if debt was not previously guaranteed, all budget loans provided to public sector enterprises in the energy sector, and any other budget loans if they have not been repaid by the end of the calendar year; repayments of called guarantees, debt takeovers, budget loans previously recorded "above the line"; and payment of arrears (irrespective of the way they are recorded in the budget law). Privatization receipts are classified as a financial transaction and are recorded "below the line" in the General Government fiscal accounts. Privatization receipts are defined in this context as financial transactions.

4. Current primary expenditure of the Republican budget (without indirect budget beneficiaries that are not included in the budgetary execution system) includes wages, subsidies, goods and services, transfers to local governments and social security funds, social benefits from the budget, other current expenditure, net lending (i.e., budget loans recorded "above the line"), payments of called guarantees, cost of bank resolution and recapitalization, cost of debt

takeover if debt was not previously guaranteed; repayments of called guarantees, debt takeovers and budget loans; and payment of arrears (irrespective of the way they are recorded in the budget law). It does not include capital spending and interest payments.

5. For program purposes, any financial support (other than loan guarantees) from the Republican or local government budgets for public enterprises in the energy sector will be recorded “above the line” at the time it is given. Financial support includes, but is not limited to, subsidies, budget loans for liquidity support, capital expenditure or capital grants for financing or co-financing energy sector projects. This is irrespective of the way these transactions are recorded in the budget law. The energy sector covers electricity production and supply, transmission and distribution including associated activities like coal mining; natural gas supply, transportation and storage; district heating; and transport of crude oil and oil products pipelines. Public enterprises in the energy sector include but are not limited to EPS, EMS and EDS and their subsidiaries; Srbijagas and its subsidiaries; and district heating companies; and any public enterprise that may be created by unbundling or be newly founded.

6. Quantitative fiscal targets (MEFP Table 1b) are specified cumulatively from the beginning of each calendar year except where defined otherwise. This includes in particular the quantitative performance criteria and indicative targets on the general government fiscal deficit and the current primary expenditure of the Republican budget, and the reference values for adjustors.

Adjustors

- The quarterly ceilings on **the general government fiscal deficit** will be adjusted downward (upward) to the extent that cumulative non-tax revenues of the General Government from dividends, debt recovery receipts, debt issuance premiums, and concession and Public Private Partnership (PPP) receipts recorded above-the-line exceed (fall short of) programmed levels. The IMF Statistics Department will determine the proper statistical treatment of any concession or PPP transaction signed during the IMF program.

Cumulative Programmed Revenues of the General Government from Dividends, Debt Recovery Receipts, and Debt Issuance at a Premium¹ (In billions of dinars)								
	End- Dec. 2022	End- Mar. 2023	End- Jun. 2023	End- Sept. 2023	End- Dec. 2023	End- Mar. 2024	End- Jun. 2024	End- Sept. 2024
Programmed cumulative dividends	18.5	13.5	13.5	13.5	13.5	14.5	14.5	14.5
Programmed cumulative debt recovery receipts	4	4	4	4	4	4	4	4
Programmed cumulative debt issuance at a premium	4	0	0	0	0	0	0	0
Programmed concession and PPP receipts recorded above the line	0	0	0	0	0	0	0	0

1/ Cumulative from the beginning of each calendar year.

- The quarterly ceilings on the **primary current expenditure of the Republican budget** will be adjusted upward (downward) to the extent that (i) cumulative earmarked grant receipts exceed (fall short of) the programmed levels, and (ii) cumulative proceeds from small-scale disposal of assets (the sale of buildings, land, and equipment) recorded as non-tax revenues exceed the programmed levels up to a cumulative annual amount of 2 billion dinars in each year. For the purposes of the adjustor, grants are defined as noncompulsory current or capital transfers received by the Government of Serbia, without any expectation of repayment, from either another government or an international organization, including the EU.

Cumulative Receipts from Earmarked Grants and Small-scale Asset Disposal¹ (In billions of dinars)								
	End- Dec. 2022	End- Mar. 2023	End- Jun. 2023	End- Sept. 2023	End- Dec. 2023	End- Mar. 2024	End- Jun. 2024	End- Sept. 2024
Programmed cumulative ear-marked grants receipts	19.2	19.2	23.2	31.2	50.5	1.8	6.2	14.7
Programmed cumulative receipts from small-scale disposal of assets	0	0	0	0	0	0	0	0

1/ Cumulative from the beginning of each calendar year.

7. Domestic arrears. For program purposes, domestic arrears are defined as the belated settlement of a debtor's liability which is due under the obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. The program will include an indicative target on the change in total domestic arrears of (i) all consolidated general government entities as defined in ¶2 above, except local governments; (ii) the Development Fund,

and (iii) the Export Credit and Insurance Agency (AOFI). Arrears to be covered include outstanding payments on wages and pensions; social security contributions; obligations to banks and other private companies and suppliers; as well as arrears to other government bodies. This indicative target will be measured as the change in the stock of domestic arrears at the test date relative to the stock at the end of the previous calendar year. Within 45 days of the end of the calendar year, the authorities will report the stock of domestic arrears on December 31, 2022.

8. Debt issued at a premium. For program purposes, debt issued at a premium refers to proceeds accruing to the government that are recorded as revenue when the government issues debt at a premium. It most commonly occurs when a bond with an above-market coupon is reopened ahead of a coupon payment.

9. The continuous structural benchmark on pension payments is in effect as of January 1, 2024. Pensions will only be adjusted through the adjustment mechanism specified in the Pension Insurance Law. The authorities will refrain from increasing pension payments by (i) making any other general adjustment to pensions, and (ii) making ad hoc pension payments such as bonuses.

10. For the purposes of the continuous structural benchmark, pension payments are defined as cash expenditures (including lump-sum payments) paid to pensioners. Pensioners include all persons whose benefits are considered a pension (including old-age, disability or survivors' pensions), as identified by the Republic Fund for Pension and Disability Insurance. Pension payments include regular monthly pension payments and one-off and adjustment payments arising in the course of pension administration paid by the Republic Fund for Pension and Disability Insurance, as well as any ad hoc pension payments or bonuses paid to pensioners (which may be classified as social transfers in the fiscal accounts).

B. Public Debt

11. Public debt is defined as debt and guaranteed debt incurred by the general government.

12. The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt will include SDRs used for financing of the Republican budget, and restitution bonds. Debts can take a number of forms, the primary ones being as follows:

- (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required

to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

13. Guaranteed public debt is debt guaranteed by the general government, i.e., a contingent liability.

C. Floor on Net International Reserves

14. For purposes of the program, all foreign currency-related assets and liabilities will be valued in euros at **program exchange rates** as specified below. The program exchange rates are those that prevailed on October 31, 2022. Monetary gold will be valued at the average London fixing market price that prevailed on October 31, 2022.

Table. Cross Exchange Rates and Gold Price for Program Purposes, October 31, 2022						
Valued in:						
Currency:	RSD	Euro	USD	SDR	GBP	Yuan
RSD	1.0000	0.0085	0.0085	0.0066	0.0073	0.0617
Euro	117.3088	1.0000	0.9953	0.7756	0.8581	7.2379
USD	117.8628	1.0047	1.0000	0.7792	0.8622	7.272
SDR	151.2522	1.2894	1.2833	1.0000	1.1064	9.3322
GBP	136.7076	1.1654	1.1599	0.9038	1.0000	8.4348
Yuan	16.2076	0.1382	0.1375	0.1072	0.1186	1.0000
Gold	193,177.13	1,646.74	1,639.00	1,277.19	1,413.07	11,918.92

Sources: International Monetary Fund and NBS.

15. Net international reserves (NIR) of the NBS are defined as the difference between reserve assets and reserve-related, short-term liabilities, measured at the end-of-business day.

16. Reserve assets are readily available claims on nonresidents denominated in convertible foreign currencies (see Balance of Payment Manual, 6.64). They include the NBS holdings of

monetary gold,¹ foreign exchange balances (foreign currency cash, foreign currency securities, deposits abroad), holdings of SDRs, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contracts, guarantees and letters of credit), claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than monetary gold, domestically acquired gold without international certificates, assets in nonconvertible currencies, and illiquid assets.

17. Reserve-related liabilities are defined as all foreign exchange denominated liabilities to nonresidents and residents, excluding deposits from the general government, with a maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options, including any portion of the NBS gold that is collateralized), and the stock of all IMF credit outstanding to the Republic of Serbia. If the NBS conducts swaps as an intermediate between two banks, commitments to sell foreign exchange arising from swaps in foreign currencies vis-à-vis domestic currency are included in foreign exchange denominated liabilities after netting with claims in foreign exchange arising from these swaps.

18. Monitoring. NIR data will be reported to the Fund on a monthly, end-of-month basis, within 14 days after the end of each month.

D. Gas Price Consultation Mechanism

19. Gas prices are defined as the spot prices for natural gas at the Dutch TTF market (closing price "Close*") as reported on <https://finance.yahoo.com/quote/TTF%3DF/history/>. The 14-day average is the equally weighted average of those prices actually reported during the 14 calendar days ending one day before the reporting day.

20. Exceeding the gas prices means, the 14-day average of natural gas prices exceeds the reference values specified in the table below. The reference gas price applies continuously during the entire quarter. Exceeding the gas price would trigger consultation with staff on the proposed policy response, including any potential additional liquidity support from the budget to Srbijagas and potential tariff increases, as needed. The consultation would take place at least once a month until one month has elapsed after gas prices drop below the reference price.

¹ See BPM6, 6.78: monetary gold is gold (i) to which the NBS has title, (ii) is held as a reserve asset by the NBS, and (iii) is certified to be at least 995/1000 pure

Table. Reference Values for Natural Gas Price						
	2023			2024		
	Apr. - Jun.	Jul. - Sept.	Oct. - Dec.	Jan. - Mar.	Apr. - Jun.	Jul. - Sept.
Natural gas price upper bound (EUR/ MWh)¹	250	250	250	250	250	250
1/ Consultation is required if the 14-day average Dutch TTF spot natural gas price (Eur/ MWh) exceeds the upper bound specified. The upper bound price applies continuously during the entire quarter.						

E. Ceiling on External Debt Service Arrears

21. Definition. External debt-service arrears are defined as overdue debt service arising in respect of obligations incurred directly or guaranteed by the consolidated general government, the Export Credit and Insurance Agency (AOFI), and the Development Fund, except on debt subject to rescheduling or restructuring. The program requires that no new external arrears be accumulated at any time under the arrangement on public sector or public sector guaranteed debts. The authorities are committed to continuing negotiations with creditors to settle all remaining official external debt-service arrears.

22. Reporting. The accounting of external arrears by creditor (if any), with detailed explanations, will be transmitted on a monthly basis, within four weeks after the end of each month.

F. Inflation Consultation Mechanism

23. Inflation is defined as the change over 12 months of the end-of-period consumer price index (CPI), base index (2006=100), as measured and published by the Serbian Statistics Office (SORS). Where the official press release differs from the index calculation, the index calculation will be used.

24. Breaching the inflation consultation band limits (specified in the MEFP, Table 1b) at the end of a quarter would trigger discussions with IMF staff on the reasons for the deviation and the proposed policy response.

G. Reporting

25. General government revenue data and the Treasury cash position table will be submitted weekly; and the stock of spending arrears as defined in ¶16 will be reported 45 days after the end of each quarter. General government comprehensive fiscal data (including social security funds) will be submitted within 35 days of the end of each month.

- 26. The stock of spending arrears** (> 60 days past due) as reported in the MOF Invoice central registry system (CRF) and Registry for Settlement of Monetary Obligations (RINO) will be submitted within 14 calendar days after the end of each month.
- 27. Gross issuance of new guarantees by the Republican budget** for project and corporate restructuring loans will be submitted within 35 days of the end of each month.
- 28. Pension spending** will be submitted within 35 days of the end of each month. Details will include total spending, and the breakdown of payments financed by each entity (e.g., the Republic Fund for Pension and Disability Insurance, the Republican budget, etc.)
- 29. Cumulative below-the-line lending by the Republican budget** will be submitted within 35 days of the end of each month.
- 30. Borrowing by the Development Fund and AOFI** will be submitted within 35 days of the end of each month.
- 31. New short-term external debt (maturities less than one year)** contracted or guaranteed by the general government, the Development Fund, and AOFI will be submitted within 35 days of the end of each month.
- 32. Receivables of the top 20 debtors to Srbijagas and EPS** will be submitted in the agreed-upon templates within 30 calendar days after the end of each month, as well as published on the company websites.
- 33. Detailed balance of payments data on a value basis** provided on a monthly basis, 45 days after the end of the month or after publication, which is traditionally available on the NBS website and downloaded by the IMF team.
- 34. Gross international reserve data** will be submitted within one business day after the respective period end as defined in the data reporting table below.
- 35. Volumes and prices of trade in goods data**, on a monthly basis, 8 weeks after the end of the month, which is traditionally available on the SORS website and downloaded by the IMF team
- 36. Production and consumption data, and cash flow data (actuals and revised projections to the end of the year) for EPS and Srbijagas** will be submitted at the end of each quarter, within 20 calendar days, in the agreed templates, until end-September 2023. Starting end-October 2023, this data will be provided at the end of each month, within 20 calendar days. In the interim, until end-September 2023, readily available data for EPS and Srbijagas (profit and loss statements) will be provided at the end of each month, within 20 calendar days.
- 37. Any support provided from the Republican budget or local government budgets to public enterprises in the energy sector** will be reported monthly within 35 calendar days after the end of each month in the template agreed. This will also include any guarantees extended.

38. Data on public debt and publicly guaranteed debt will be submitted monthly within 35 calendar days after the end of each month; except that data on suppliers' credit, leases and obligations arising from the receipt of advance payments will be provided to the extent available on a quarterly basis, and data on guaranteed debt will cover guarantees issued by the Republic of Serbia.

Data Reporting for Quantitative Targets		
Reporting Agency	Type of Data	Timing
Statistical Office and NBS	CPI inflation	Within four weeks of the end of the month
Statistical Office and NBS	Trade in goods data, volumes and prices 1/	Monthly, within 8 weeks of the end of the month
Ministry of Finance	Fiscal deficit of the consolidated general government	Within 35 days of the end of the month
Ministry of Finance	Current primary expenditure of the Republican budget excluding capital expenditure and interest payments	Within 35 days of the end of the month
Ministry of Finance	External debt payment arrears by general government, Development Fund and AOFI	Within four weeks of the end of the month
Ministry of Finance	Cumulative net lending from the Republican Budget to Srbijagas	Within four weeks of the end of the month
Ministry of Finance	Gross accumulation of domestic payment arrears by the general government (without local government, the Development Fund, and AOFI)	Within 45 days of the end of the quarter
Ministry of Finance	Earmarked grants and receipts from small-scale disposal of assets	Within four weeks of the end of the quarter
NBS	Detailed balance of payments data, value basis 2/	Monthly, within 45 days of the end of the month
	Gross international reserves	Weekly, at the end of the first business day in the following week 3/
	Gross international reserves, composition details	Every two weeks, at the end of the first business day in the following week
	GIR and reserve-related liabilities (FX liabilities with a maturity of 1 year or less). Reserve-related liabilities projections for 4 quarters forward.	End of quarter, within 14 days after the end of the quarter.
<p>1/ Sufficient to notify IMF that data is available on SORS website. 2/ Sufficient to notify IMF that data is available on NBS website. 3/ If gross reserves decline by more than 5 percent in one day or by more than 10 percent on a cumulative basis for any two-week period, reporting frequency shall be increased to daily, by the end of the subsequent business day, until the NBS and IMF staff mutually agree to return to weekly reporting.</p>		